Economic Update

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More supportive measures to come

- Implemented FDI increased by 3.3% yoy to reach US$1.6bn in Apr 2023 while registered capital surged by 80.5% yoy to US$3.4bn.
- Vietnam's CPI cooled down to 2.8% yoy in Apr, the lowest level in 1 year
- We maintain our GDP growth forecast of 4.5% in 2Q23F and 5.5% in 2023F

Industrial sector hard to recover in Apr 2023

Vietnam's Industrial Production Index (IIP) increased by 3.6% on a monthly basis and by 0.5% on an annual basis in Apr 2023. April's index improved slightly from a decline of 1.6% yoy in the previous month, but was still much lower than the growth rate in the normal period (between 7-9% annual growth rate). On the contrary, Vietnam's Purchasing Managers' Index (PMI) dropped to 46.7pts in Apr 2023, down from 47.7pts in the previous month. In general, we have not seen clear evidence of a strong recovery in industrial activities in the next few months as Vietnam's PMI and export orders continue to decline, of which Vietnam's export on Apr 23 witnessed the strongest decline in the past three months with export turnover declining by 16.2% yoy to US$27.9bn (-6.2% mom)

Vietnam's CPI cooled down to the lowest level in 1 year

Vietnam's headline inflation fell to a one-year low of 2.8% yoy in Apr 2023. On a mom basis, Vietnam's CPI slumped 0.3% in Apr after falling 0.2% in the previous month. On May 4, EVN decided to increase the average retail price of electricity by 3% to VND1,920/kWh (excluding value added tax). According to our estimation, a 3% increase in retail electricity price can directly increase the overall CPI of the economy by 0.1%. We expect Vietnam's average inflation to increase by 3.5-3.9% yoy in 2023F, below the government's guidance of 4.5%.

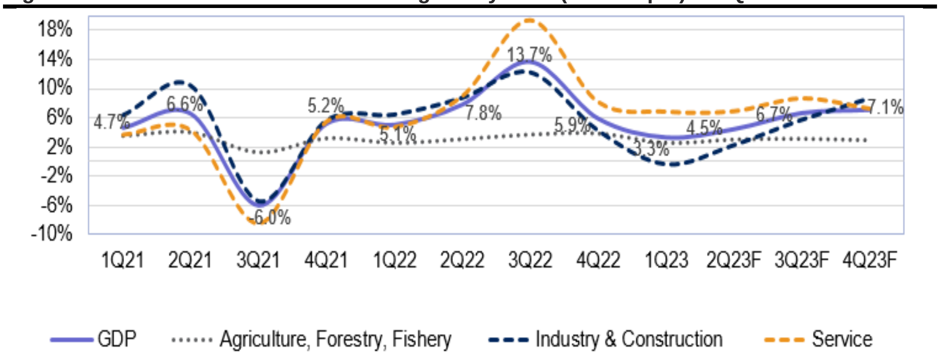
The SBV delivered additional measures to support the economic growth

On Apr 23, 2023, the SBV announced Circular 02/2023 to guide credit institutions to review and reschedule principal/interest payments or maintain debt groups for customers who are (1) facing liquidity problems to run businesses and (2) losing demand for consumer loans. In addition, the SBV also announced Circular 03/0223 allowing the postponement of Article 11 Clause 4 of Circular 16/2021. This means banks are still able to buy back unlisted corporate bonds sold/distributed by them under some specific conditions.

…and may continue to lower its policy rates

In Mar-23, the SBV had two reductions in its policy interest rates, which marks a reversal in the domestic monetary policy. As the risk of a recession in the US economy is increasing, the market expects the FED to pause its rate hike cycle as soon as its next meeting in Jun 2023. In this case, the pressure on VND exchange rate and domestic interest rates will ease further. Therefore, we expect the SBV to cut its policy rates further by at least 50 basis points in the remaining of 2023.

Figure 1: We forecast Vietnam's GDP to grow by 4.5% (+/-0.2% pts) in 2Q23F



Source: GSO, VNDIRECT RESEARCH

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More supportive measures to come

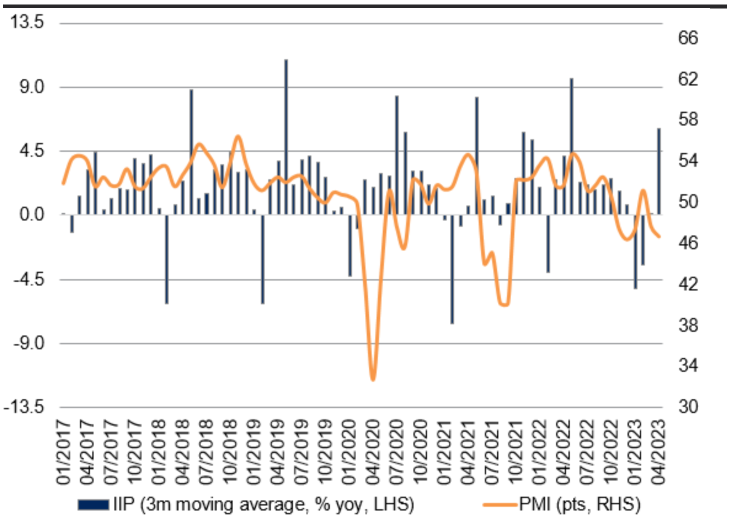
Industrial sector hard to recover in Apr 2023

According to General Statistics Office (GSO), Vietnam's Industrial Production Index (IIP) increased by 3.6% on a monthly basis and by 0.5% on an annual basis in Apr 2023. April's index improved slightly from the previous month (IIP dropped 1.6% yoy in Mar 2023), but was still much lower than the growth rate in the normal period (between 7-9% annual growth rate). This shows that the recovery of the industrial sector is slow and unsustainable in the context of weak external demand for Vietnam's industrial products. Regarding to sub-sector, some main industrial activities saw a recovery in April including: manufacture of chemical & chemical products (+14.9% yoy), food production (+7.6% yoy), manufacture of textiles (+2.1% yoy), furniture production (+8.8% yoy) and manufacture of basic metals (+1.1% yoy). On the other hand, some industrial activities continued to shrink in Apr 2023 such as manufacture of motor vehicles (-6.0% yoy), manufacture of computer and electronic products (-4.3% yoy), manufacture of wearing apparel (-1.8% yoy), manufacture of leather and related products (-0.8% yoy), extraction of crude petroleum and nutural gas (-0.8% yoy).

Looking to another important data, Vietnam's Purchasing Managers' Index (PMI) dropped to 46.7pts in Apr 2023, down from 47.7pts in the previous month. This is the second consecutive month that Vietnam's manufacturing PMI has been below 50 points, reflecting shrinking manufacturing activity. Notably, the data showed that business conditions fell for the fifth time in the past six months, and this drop was the sharpest decline since the beginning of 2023. Businesses surveyed by S&P Global said it was difficult to find new orders amid weak external demand.

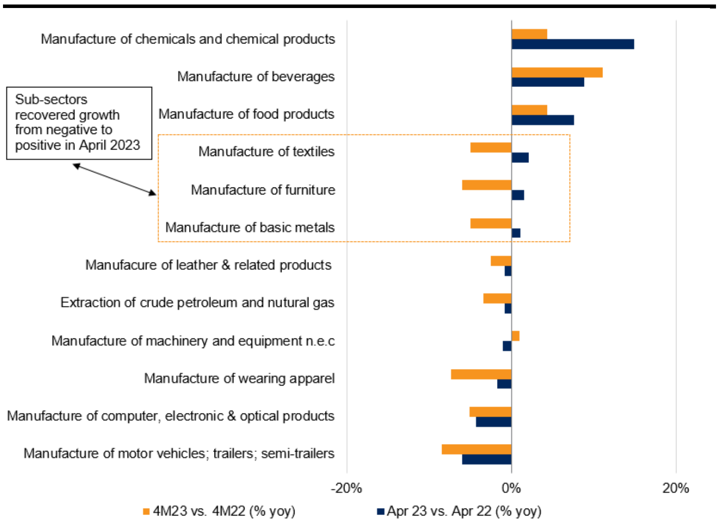
In general, we have not seen clear evidence of a strong recovery in industrial activities in the next few months as Vietnam's PMI and export orders continue to decline in Apr 2023. Weak industrial activity remains a major challenge for Vietnam's economic growth in the second quarter of 2023.

Figure 2: Vietnam's PMI dropped to 46.7pts in Apr 2023, down from 47.7pts in the previous month



Source: GSO, VNDIRECT RESEARCH

Figure 3: Industrial production index (IIP) by category (+/- % yoy)



Source: GSO, VNDIRECT RESEARCH

The service sector performed quite positively in Apr 2023

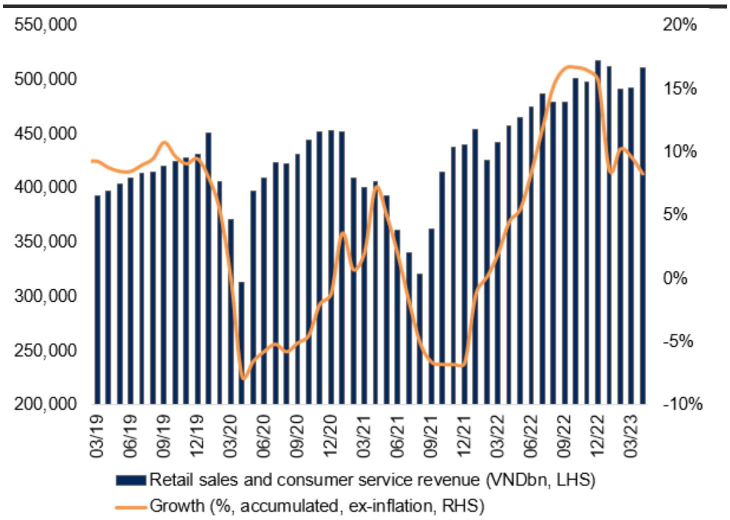
According to GDO, gross retail sales of consumer goods and services in Apr 23 grew 11.5% yoy, equivalent to the annual increase of the previous month. The year-to-date gross retail sales of consumer goods and services was 12.8% yoy, higher than that of 6.7% yoy seen in same period last year.

To be specific, gross retail sales of consumer goods and services increased by 3.6% on a monthly basis, which is the highest monthly growth since the beginning of 2023. Regarding to sub-sectors, all aspects of the service sector improved in Apr 2023. Firstly, the travelling service recoded the strong month-on-month growth with revenue reached VND2.3 trillion (+86.0% yoy). Furthermore, revenue of accommodation and catering service rose 5.0% mom to VND54.9 trillion (+21.1% yoy) while retail sales edged up 3.2% mom to VND401.1 trillion (+9.7% yoy) in Apr 2023.

Tourism is still a bright spot as international arrivals to Vietnam rose further in Apr 23. According to GSO, Vietnam welcomed about 984 thousand international visitors (+9.9% mom, 10.7x over the same period last year). In 4M23, the number of international visitors to Vietnam was estimated at 3.7m arrivals, 20.2x over the same period last year and 60% of pre-pandemic level. In which, Korea accounted for the largest number of tourists to Vietnam in Apr 23 with an estimated 259,357 visitors (+3.5% mom), followed by China (111,903 visitors; +61.4% mom), Taiwan (61,606 visitors; +47.6% mom), USA (56,240 visitors; -5,2% mom) and Thailand (54,503 visitors; +13.7% mom). The positive point in Apr is that the number of Chinese tourists has increased sharply after China include Vietnam in the second batch of China's resumption of outbound group tours since mid-Mar 2023.

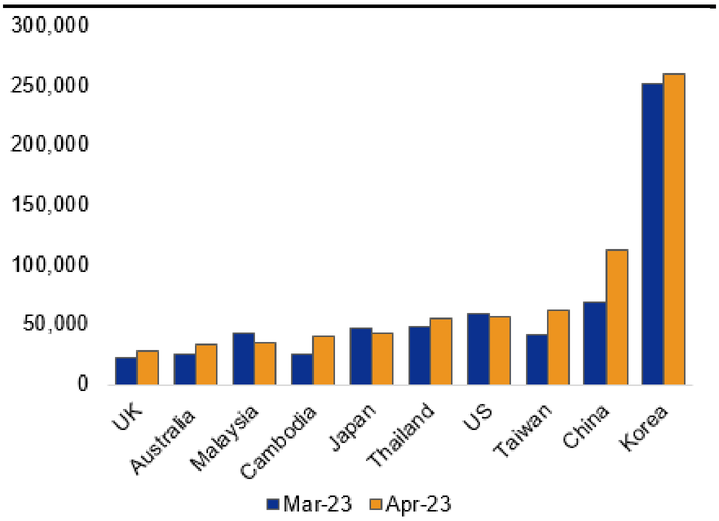
However, we are concerned that the growth rate of the service sector could decelerate in the next few months due to emerging challenges, including: shrinking manufacturing industry, gloomy real estate market and high interest rates for consumer loans. Therefore, we propose Vietnam's government to soon implement tax exemption and reduction policies, especially reducing VAT to 8% for current 10% taxable items to stimulate domestic consumption.

Figure 4: Gross retail sales of consumer goods and services grew 12.8% yoy in 4M23



Source: GSO, VNDIRECT RESEARCH

Figure 5: International tourists by country



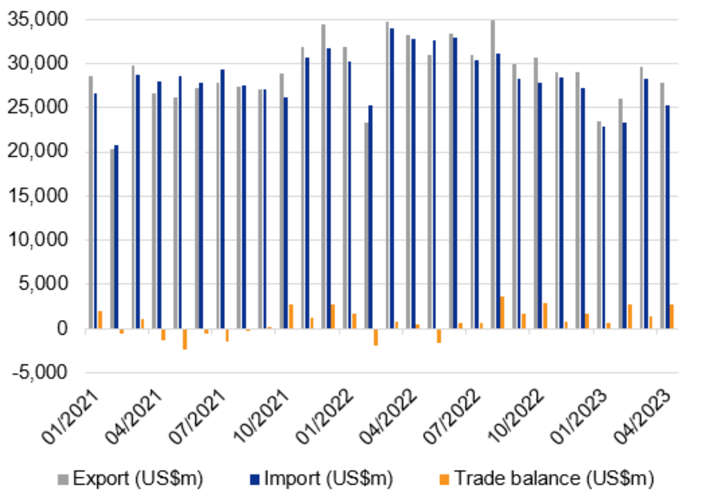
Source: GSO, VNDIRECT RESEARCH

Trade activities saw stronger decline in Apr 2023

Exports hit harder as new orders continued to decline

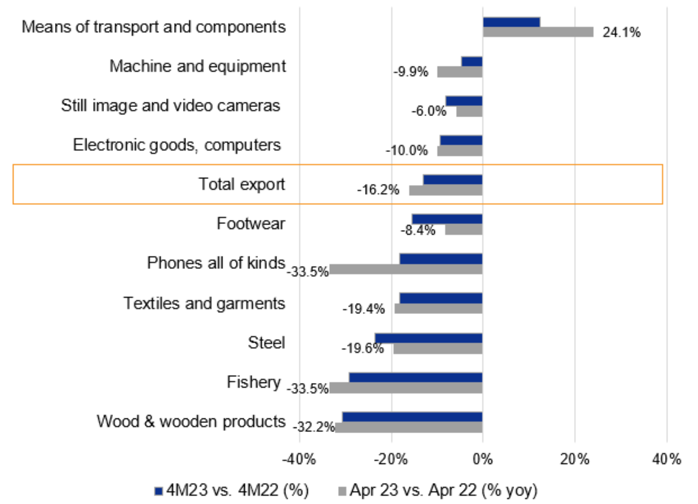
The persistent decline in external orders for the manufacturing sector as well as falling commodity prices caused Vietnam's export value to decrease further in Apr 2023. According to Vietnam Customs, Vietnam's export in Apr 23 witnessed the strongest decline in the past three months with export turnover declining by 16.2% yoy to US$27.9bn (-6.2% mom). The decline was seen in most of the key export items, including: wood & wooden products (-32.2% yoy), fishery (-33.5% yoy), steel (-19.6% yoy), textiles and garments (-19.4% yoy), phones all of kinds (-33.5% yoy), footwear (-8.4% yoy), electric goods and computers (-10.0% yoy), and machine and instrument (-9.9% yoy). On the other hand, a number of export items with positive growth in Apr 23 include rice (+97.7% yoy), means of transport (+24.1% yoy), fruit & vegetables (+22.2% yoy) and paper & related products (+4.0% yoy).

Figure 6: Vietnam's recorded a trade surplus of US$7.6bn in 4M23



Source: GSO, Vietnam Customs, VNDIRECT RESEARCH

Figure 7: Top export products in term of value



Source: Vietnam Customs, VNDIRECT RESEARCH

We consider that export difficulties may persist at least until the end of the second quarter of this year due to the following reasons:

- Gloomy global economic outlook, followed by a decline in new orders for Vietnam's manufacturing industry. Vietnam's PMI data fell for the fifth time in the past six months, and this data in Apr reflected the sharpest contraction of manufacturing activities since the beginning of 2023. The drop in orders could last for a few more months. According to the textile and garment associations, difficulties in export orders may last until the end of the third quarter of this year, which is more negative than the previous forecast of the end of the second quarter.
- 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.

We maintain our forecast for Vietnam's exports in 2023 at -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.

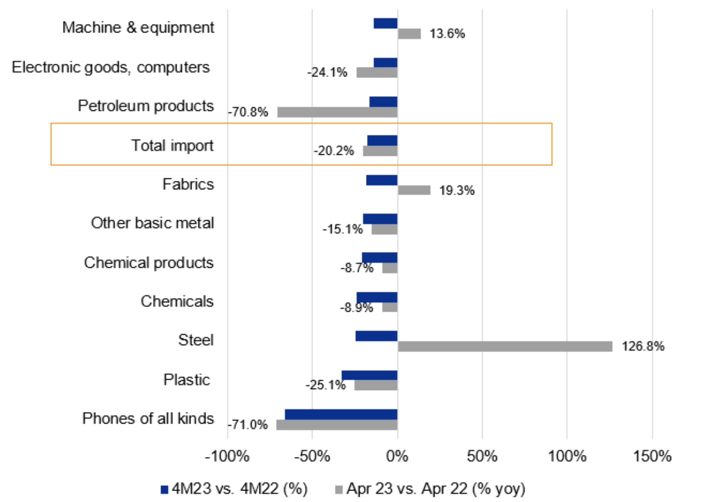
Imports declined further, suggesting that the recovery of the manufacturing sector is uncertain

Import values continued to decline in Apr 2023, 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 Apr 2023 fell 20.2% yoy to about US$25.2bn (-10.7% mom). That's a steeper drop than the 16.9% annual decline in the previous month. In Apr 2023, the import of intermediate goods (for production activities) dropped sharply by 24.5% yoy while the import of raw materials and the imports of consumer goods decreased by 25.9% yoy and 11.1% yoy, respectively. On the other hand, the import of capital goods increased by 12.8% over the same period last year, that is an improvement from the 19.8% annual decrease in 1Q23. For 4M23, Vietnam import turnover dropped 17.7% yoy to US$99.6bn. Due to weak import performance, we raise concern about the ability of the manufacturing sector to recover in the next few months.

Regarding to trade balance, Vietnam net export US$7.6bn in 4M23, a strong improvement from a trade surplus of US$2.1bn in 4M22. The improved trade surplus contributed to the stability of the VND exchange rate in 4M23.

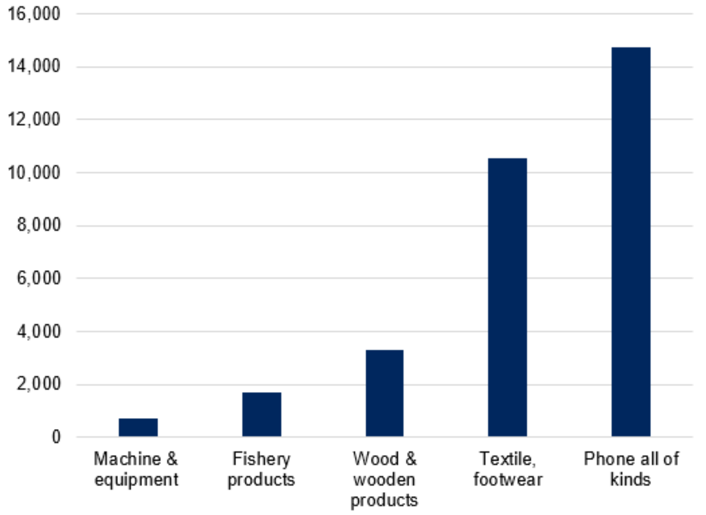
We believe that import value is unlikely to improve significantly in the next few months due to the tendency of enterprises to reduce production amid sluggish world economic growth prospects. We expect import value to decline 3% yoy in 2023F. Therefore, we expect Vietnam's trade surplus to improve to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

Figure 8: Top import products in term of value



Source: Vietnam Customs, VNDIRECT RESEARCH

Figure 9: Top net export products in 4M23 (Unit: US$m)



Source: Vietnam Customs, VNDIRECT RESEARCH

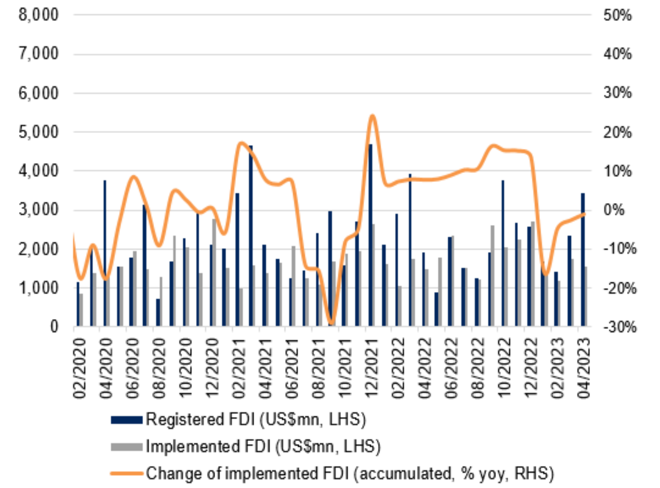
Vietnam's government needs to promote expansionary fiscal policy to support economic recovery

Soft foreign direct investment (FDI) inflow in 4M23

FDI inflows showed signs of improvement when both registered capital and implemented capital grew positively in Apr 2023. Implemented capital by 3.3% yoy to reach US$1.6bn in Apr 2023 while registered capital surged by 80.5% yoy to US$3.4bn. However, we believe that it is necessary to observe more actual data in the coming months to confirm whether the trend of FDI inflows into Vietnam will really recover in the context of the slowing global economic growth.

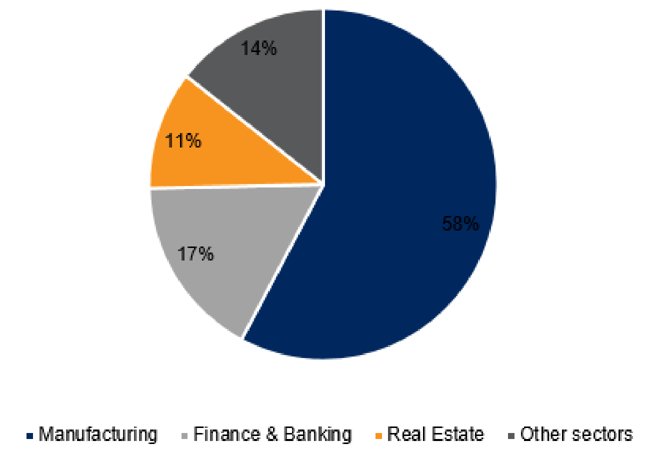
For 4M23, Implemented FDI slid by 1.2% yoy to US$5.9bn, meanwhile, registered FDI dropped by 17.9% yoy to US$8.9bn. 750 newly licensed projects (+65.2% yoy) with a registered capital of US$4.1bn (+11.1% yoy); 386 (+19.5% yoy) projects licensed in the previous years approved to adjust investment capital (incremental FDI) with a total additional capital of US$1.7bn (-68.6% yoy); 1044 (+1.8% yoy) turns of capital contribution and share purchases of foreign investors with a total value of the capital contribution of US$3.1bn (+71.1% yoy).

Figure 10: Implemented FDI fell 17.9% yoy in 4M23



Source: GSO, MPI, VNDIRECT RESEARCH

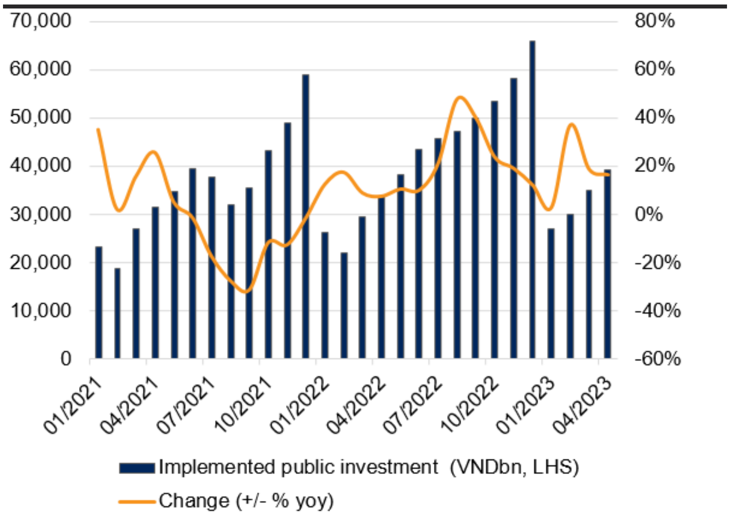
Figure 11: Apr 2023 newly registered FDI (breakdown by sector)



Source: GSO, MPI, VNDIRECT RESEARCH

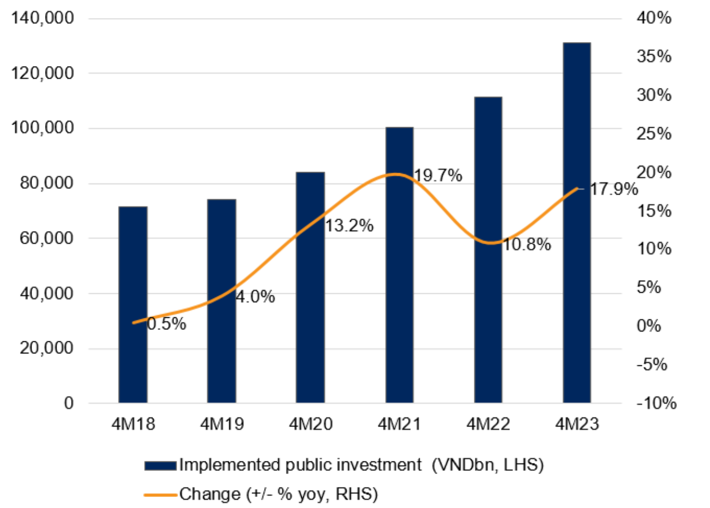
Public investment is vital to support economic growth in 2023

Figure 12: Public investment grew steadily



Source: GSO, VNDIRECT RESEARCH

Figure 13: Implemented public investment rose 17.9% yoy in 4M23



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 Apr 2023 rose 16.4% yoy to VND39.3tr (vs. +18.6% yoy in Mar 2023). For 4M23, the implemented state capital rose 17.9% yoy to VND131.2tr, which is higher than the growth rate of 10.8% yoy in 4M22.

However, implementation public investment capital in 4M23 only reached about 19% of the whole year 2023 plan (vs. 18.5% of the whole year 2022 plan in 4M22). 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 10 May, in primary market, 10-year and 15-year G-bond yields dropped 167 and 170 bps ytd, to 3.0% and 3.1%, respectively. On secondary market, Vietnam's 5-year and 10-year G-bonds yields decreased 242 and 189 bps ytd, to 2.6% and 3.2%, respectively.
- **Domestic inflation cooled down in the past few months**: Vietnam's headline inflation dropped down to 2.8% yoy in Apr 23 from 4.2% yoy in 1Q23. 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 Jun 30 this year.

Consequences, we maintain our forecast that the implemented state capital to increase by 25% compared to the actual implementation in 2022.

Figure 14: Progress of key transport infrastructure projects in the period of 2021 - 2026

Project		Total investment (VND bn)
Eleven sub-projects of East North-South expressway (Phase 1)	Cam Lo - La Son	7,700
	Cao Bo - Mai Son	1,600
	My Thuan 2 bridge	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
Long Thanh International Airport (Phase 1)		109,112
Twelve sub-projects of East North-South expressway (Phase 2)		146,990
Ring Road 3 (HCMC)		75,378
Ring Road 4 (Hanoi)		85,813
Total		**519,081**

Source: VNDIRECT RESEARCH

Vietnam's government launches fiscal support packages to stimulate economic growth

In Apr 2023, the government issued fiscal policies to boost the business activities and domestic consumer demand. Notably, at the request of the Ministry of Finance, the government issued Decree 12/2023/ND-CP on Apr 14, 2023. The implementation of Decree 12/2023/ND-CP allows businesses to retain a portion of tax money for a time to funding short-term capital, thereby reducing financial costs and loan interest in the context of current mobilization channels, such as credit, corporate bonds and equity market, face difficulties (see details in figure below). The government also agreed with the proposal of the Ministry of Finance on reducing VAT on goods and services from 10% to 8% in order to reduce input costs and improve domestic consumer demand. The Government has submitted to the National Assembly Standing Committee for consideration and comments on this draft. The National Assembly Standing Committee agreed on the need to issue a Resolution on VAT reduction to support people and businesses, but disagreed with the extension of the 2% VAT reduction scope to apply to goods and services such as banking, securities, insurance, real estate,... Therefore, it is likely that the subject of 2% VAT reduction will remain the same as Resolution No. 43/2022/QH15 on reducing VAT 2% in 2022.

Figure 15: Details of Decree 12/2023/ND-CP

Legislative documents	Taxes	Terms & conditions
Decree No. 12/2023/ND-CP extending deadlines for tax payments and land rental fees in 2023	For value-added tax (VAT)	-The deadline for payment of VAT for the tax period of Mar 2023 is Oct 20,2023 - The deadline for payment for the tax period of the first quarter of 2023 is Oct 31,2023 - The deadline for payment for the tax period of Apr 2023 is Nov 20, 2023 - The deadline for payment for the tax period of May 2023, Jun 2023, Jul 2023 and Aug 2023 is Dec 20, 2023 - The deadline for payment for the tax period of the second quarter of 2023 is Dec 31, 2023
	For corporate income tax (CIT)	The deadline for payment of CIT for the tax period of the first and second quarters of 2023: The extended duration is 3 months from the deadline for CIT payment
	For value-added tax (VAT) and personal income tax (PIT) of business households and business individuals	The deadline for paying VAT and PIT of business households and business individuals for the tax period of 2023 is Dec, 30, 2023
	For land rental	To extend the deadlines for payments of 50% of the land rental amounts payable in 2023 and the extension duration is 6 months from May 31, 2023 to Nov 30, 2023
Draft resolution on value-added tax reduction	- The government proposes reducing VAT by 2 percentage points for goods and services taxable at 10% - This proposal expands the group of goods and services eligible for VAT reduction from 10% to 8% compared to the provisions of Decree 15/2022/ND-CP	- Enterprises are entitled to the VAT rate of 8% for goods and services currently subject to the 10% tax rate - Business establishments (including business households and business individuals) that calculate VAT according to the percentage method on turnover are entitled to a reduction of 20% of the percentage rate to calculate VAT when issuing invoices for goods and services elegible for VAT reduction (according to Clause 1, Article 1 of draft resolution)

Source: Vietnam's government, VNDIRECT RESEARCH

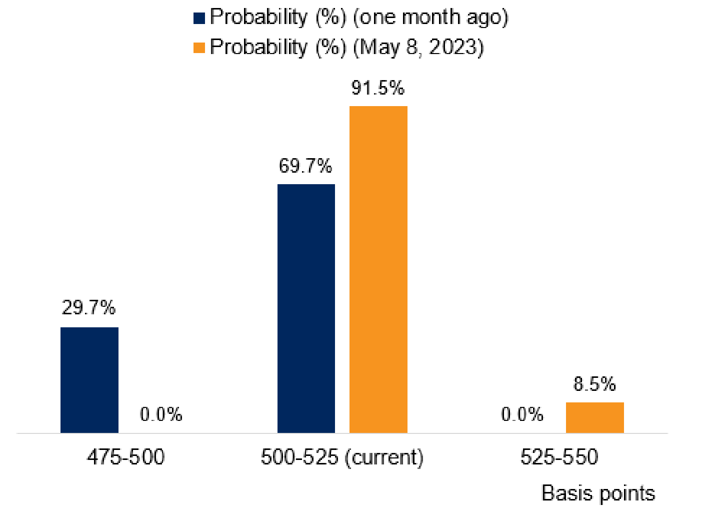
Easing pressure on VND exchange rate as the Fed's rate hike cycle is coming to an end

The Fed's rate hike cycle is coming to an end

In a unanimous decision widely expected by market, the Fed announced its 10th-straight interest rate hike at its last meeting, raising the benchmark rate by 0.25 percentage points to a target range of 5-5.25%. Additionally, the post-meeting statement omitted a sentence contained in the Mar meeting documents that said "The Committee anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time. Instead, the latest documents included the phrasing of "in determining the extent to which additional policy firming may be appropriate". This change is meaningful because the Fed is no longer anticipating further rate hikes. Instead, the next interest rate path is uncertain and highly dependent on upcoming macroeconomic data. It gives a tentative hint that the Fed's rate hike cycle is coming to an end. After the Fed's somewhat dovish statements on upcoming policy, the market now expect the

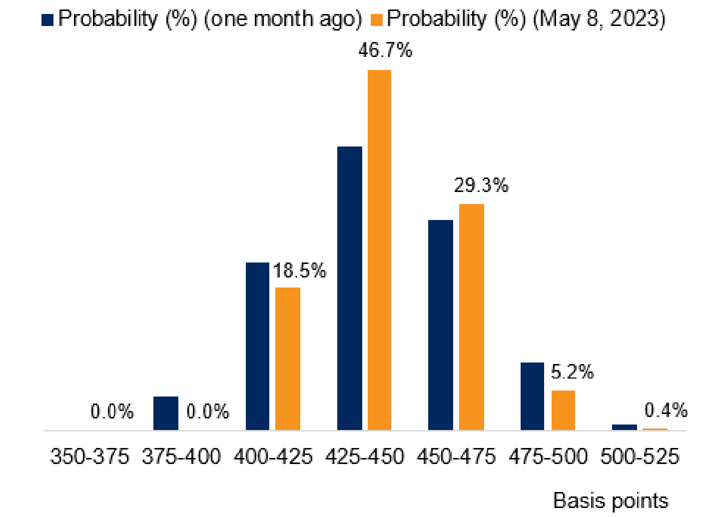
Fed to pause rate hikes at its Jun meeting and cut rates as early as 2H23 due to the possibility of a recession.

Figure 16: Markets now expect Fed to pause rate hikes at Jun meeting



Source: CMEGROUP, VNDIRECT RESEARCH

Figure 17: Markets now expect the Fed to cut rates as early as 2H23 (The probability of FED fund target rate at the Dec 23 meeting)

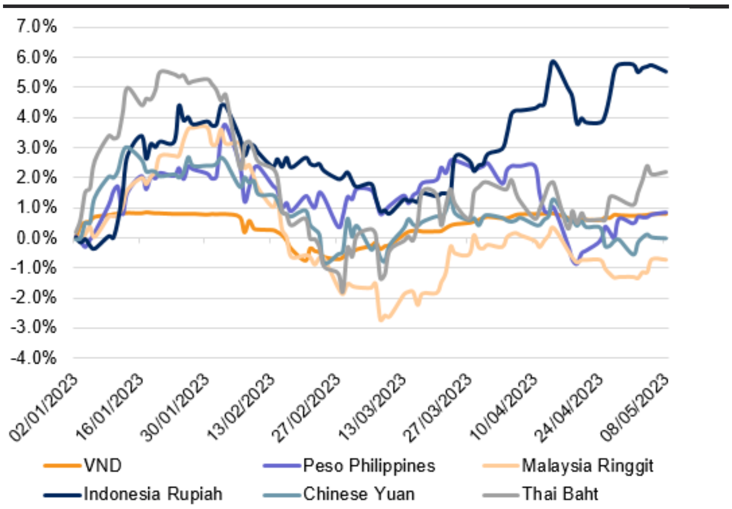


Source: CMEGROUP, VNDIRECT RESEARCH

Easing pressure on VND exchange rate

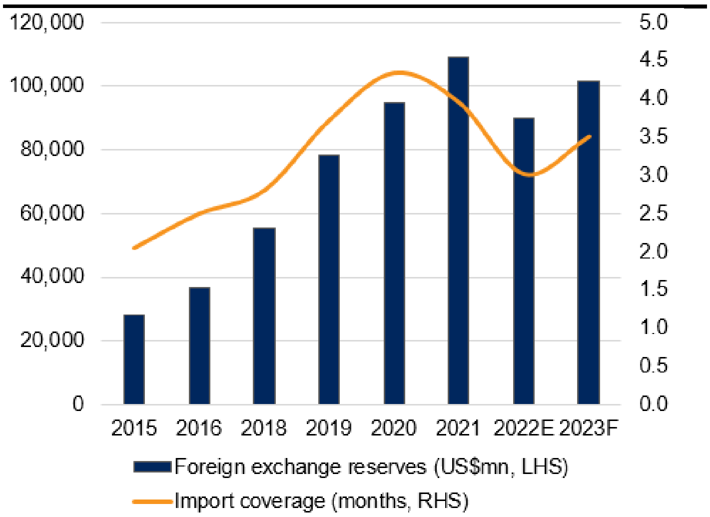
As of May 8, 2023, DXY fell to 101.1pts, down 4.0% before the Silicon Valley Bank (SVB) crash. The softer DXY has brought the US$/VND down 0.8% ytd to 23,449. Among regional currencies, the USD depreciated against Philippine Peso (-0.8% ytd), Thai Baht (-2.2% ytd) and Indonesian Rupiah (-5.5% ytd) while slightly edged up against Malaysia Ringgit (+0.7% ytd).

Figure 18: Regional currencies vs. the US$ (+/- % ytd)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 19: Vietnam's import coverage (month) and FX reserves



Source: Vietnam Customs, SBV, VNDIRECT RESEARCH

Thanks to lower exchange rate pressure, the SBV has added about US$6bn in 4M23, lifting the foreign exchange reserves to about US$93bn. As a result, the SBV has pumped out about VND140,000bn into the economy to buy US$, thereby supporting liquidity of the banking system and lowering domestic interest rates. For 2Q23, we see downward pressure on the US$/VND exchange rate as Fed could pause its rate hike cycle as soon as its next meeting in Jun 2023 and expect the US$/VND exchange rate to fluctuate between 23,400-23,700. 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.

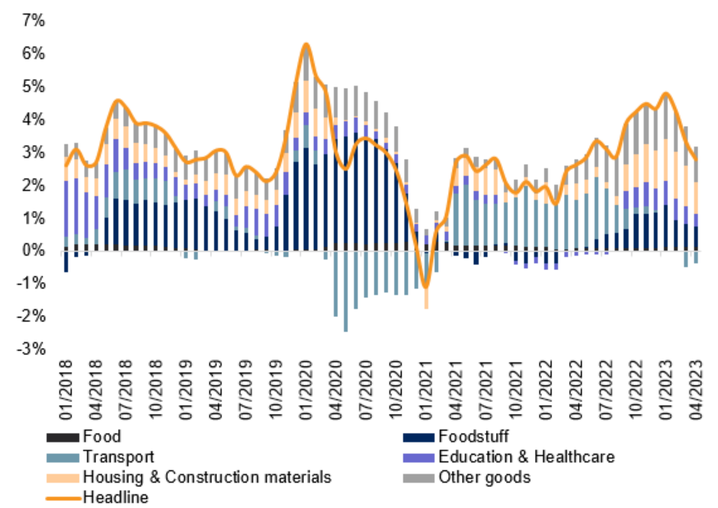
Vietnam's CPI cooled down to the lowest level in 1 year

Vietnam's headline inflation fell to a one-year low of 2.8% yoy in Apr 2023. On mom basis, Vietnam's CPI slumped 0.3% in Apr after falling 0.2% in the previous month, mainly driven by the decline of Food & Foodstuff (-0.4% mom), Cultural and Recreation items (-0,5% mom), Accommodation & construction materials and Education items (-1.7% mom) sub-indexes. In 4M23, Vietnam's CPI averaged at 3.8% yoy.

On May 4, 2023, EVN decided to increase the average retail price of electricity by 3% to VND1,920/kWh (excluding value added tax). This increase is lower than previous proposals in the range of 5-7%, thereby reducing the impact on overall inflation. According to our estimation, a 3% increase in retail electricity price can directly increase the overall CPI of the economy by 0.1%.

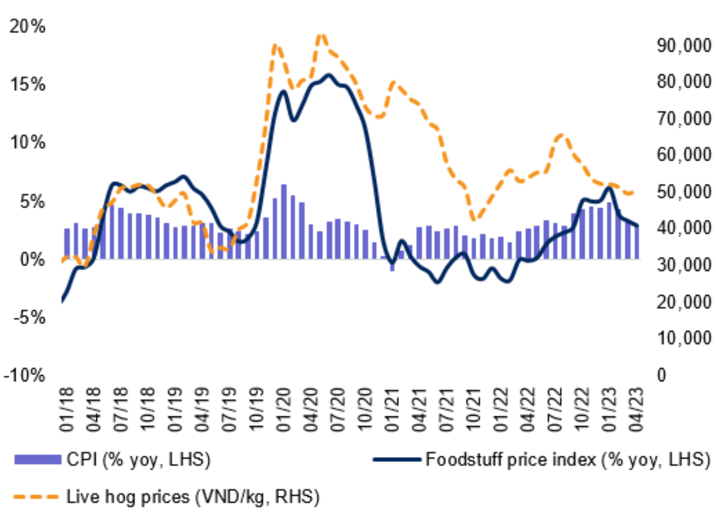
We maintain our view that inflation pressure will ease in the second quarter of 2023 thanks to (1) lower food & foodstuff CPI and (2) lower inflation pressure from import products in the context of falling commodity prices and a stable VND exchange rate. We downgrade Vietnam's CPI forecast to an average of 2.6-3.0% for 2Q23F (from the previous forecast of 2.9-3.3%). We expect Vietnam's average inflation to increase by 3.5-3.9% yoy in 2023F, 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.

Figure 20: Inflationary pressure cooled down further in Apr 23



Source: GSO, VNDIRECT RESEARCH

Figure 21: Food & foodstuff inflation has been eased since Feb 23



Source: GSO, VNDIRECT RESEARCH

More supportive measures to come

The SBV delivered additional measures to support the economic growth

On Apr 23, 2023, the SBV announced Circular 02/2023 to guide credit institutions to review and reschedule principal/interest payments or maintaining debt group for customers who are (1) facing liquidity problems to run businesses and (2) losing demand for consumer loans. Besides, the Circular also allows banks to extend the time period to allocate provisions for those aforementioned loans. This policy will partially solve the liquidity crunch issue, especially property developers, and support businesses with good fundamental as well.

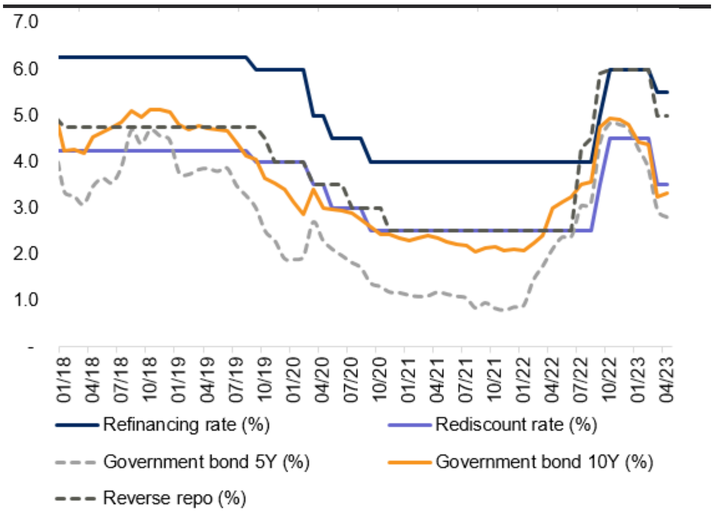
In addition, the SBV also announced Circular 03/0223 allowing the postponement of Article 11 Clause 4 of Circular 16/2021. This means banks are still able to buy back unlisted corporate bonds sold/distributed by them with several conditions. Moreover, the SBV is studying the draft amendment to Circular 41/2016. It aims to lower the risk factor of industrial property loans and loans to social housing group, in general, pointing out that lending to those segments are encouraged. This action is strictly following the guidance in Resolution 33/2023 (about the credit package of VND120tr). This is also a solution to boost SOCBs' credit growth in the context of their softer NIM (when the interest rate trend shows signs of reversal, SOCBs' lending rates will likely to decline faster than the deposit rate, as SOCBs still have to obey the Government's call on lowering interest rate to support businesses).

Overall, we believe that these supportive measures coupled with lower lending rates will improve the credit growth outlook in 2H23. As of Apr 25, 2023, credit of the whole economy rose by 2.75% ytd (vs. +7.2% ytd in 4M22).

…and may continue to lower its policy rates

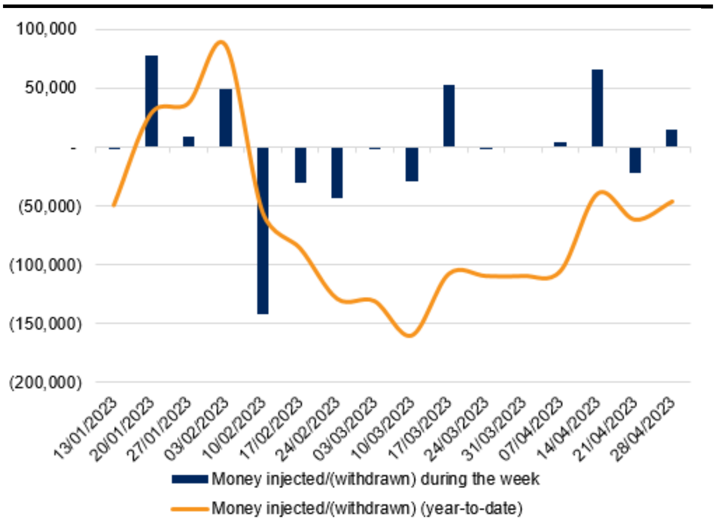
The SBV may continue to lower the policy rates in the 2H23. As the risk of a recession in the US economy is increasing, the market expects the FED to pause its rate hike cycle as soon as its next meeting in Jun 2023. In this case, the pressure on VND exchange rate and domestic interest rates will ease further. In addition, inflationary pressure has eased in the context of (1) falling import prices (2) weak consumer demand and (3) low money supply growth over the past year. Therefore, after two rate cuts in Mar 2023, we expect the SBV to continue cutting the policy rates by at least 50 basis points for the remainder of 2023.

Figure 22: The SBV cut its policy interest rates twice in Mar-23



Source: SBV, BLOOMBERG, VNDIRECT RESEARCH

Figure 23: Money injected/(withdrawn) by SBV (Unit: VNDbn)



Source: SBV, BLOOMBERG, VNDIRECT RESEARCH

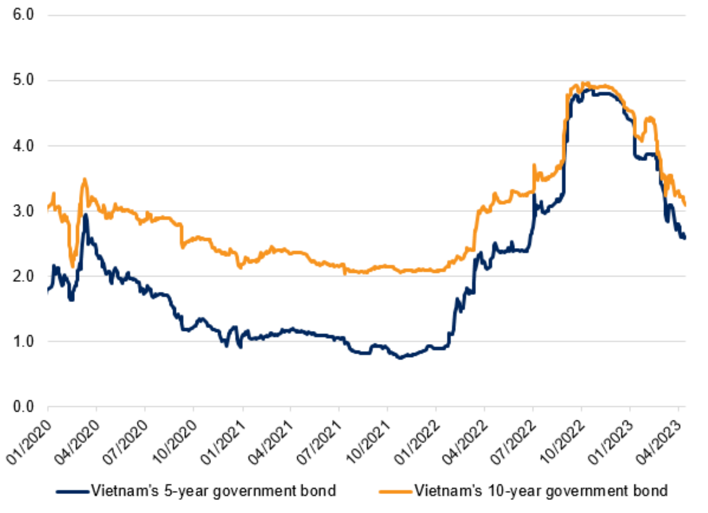
We expect the average deposit rate will ease to 7.0% within 2023

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.

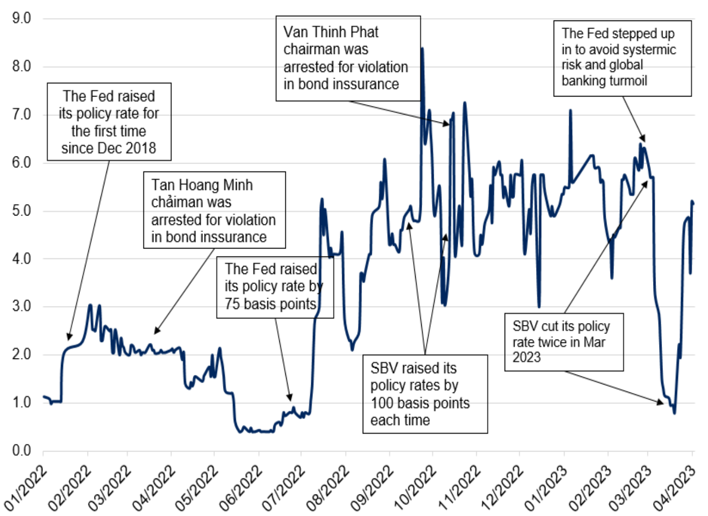
We expect the average 12-month deposit rate (average of both private banks and state-owned banks) will drop another 50 bp to 7.0% p.a. within 2023.

Figure 24: Yields on Vietnam's government bonds extended their decline in Apr 23 (Unit: %)



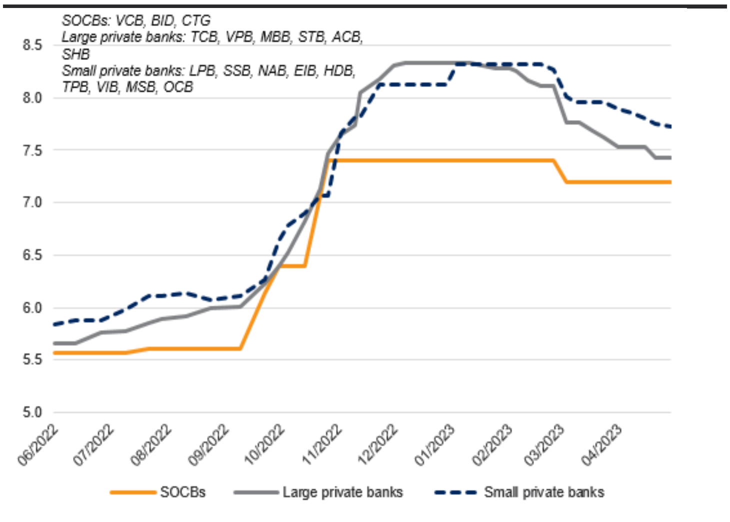
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 25: The interbank overnight interest rate rebounded in Apr 23 (Unit: %)



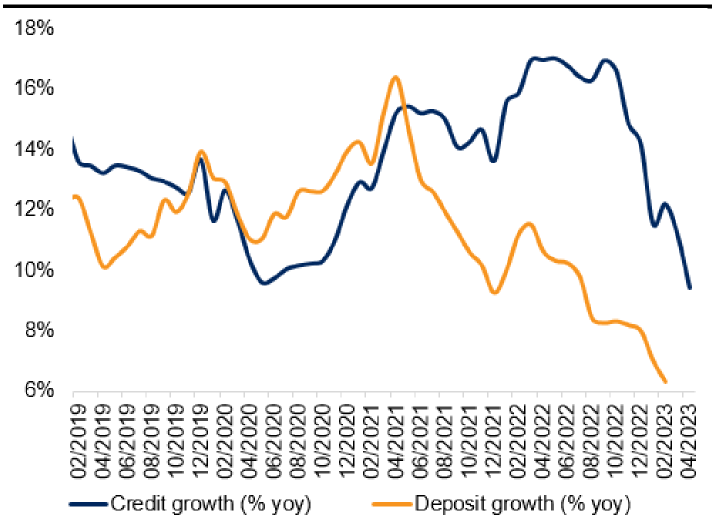
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 26: The deposit interest rates of private banks dropped by 20 basis points for 12-month term in Apr 2023 (Unit: %)



Source: Commercial banks, VNDIRECT RESEARCH

Figure 27: Credit growth decelerated in 4M23 (%)



Source: Commercial banks, VNDIRECT RESEARCH

We keep our GDP growth forecast for Vietnam's economy unchanged at 5.5% in 2023F

Vietnam's economy is facing major challenges in the second quarter of 2023, coming from fewer orders for Vietnam's manufacturing and export industries, tightening global financial conditions and a downturn in the real estate market. We expect Vietnam's economy to grow 4.5 yoy (+/- 0.2 pts) 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 2.0-2.5% 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 3.8-4.0% yoy, down from 6.4% yoy in 1H22. We expect Vietnam's GDP growth to bounce back stronger in the second half of 2023 as we expect China's reopening could help global economy pick up from a trough. This will support the recovery of Vietnam's manufacturing and export sectors. Besides, Vietnam's GDP growth is also supported by (1) accelerating disbursement of public investment capital, (2) tax exemption and reduction policies, (3) lowering interest rates and (4) policies to support the real estate market. Consequences, we maintain our GDP growth forecast for Vietnam in 2023F at 5.5% (+/- 0.3% pts).

Figure 28: 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	4.5	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	55.1	78.3	94.8	109.4	87.0	101.5				
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	3.6	4.2	2.8	3.3	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	131.3				
M2 growth	% ytd	12.4	14.8	14.7	10.7	6.2	9.9				
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	3.0	3.2	3.2	3.1	3.0
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 stops raising policy interest rates at its next meeting in Jun 2023. 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.

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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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