

## Envisaging stronger recovery in 2H23

- Vietnam's 2Q23 GDP rose 4.1% yoy, a slight improvement from 3.3% yoy growth in 1Q23.
- We forecast Vietnam's GDP to increase 7.1% yoy in 2H23, thus lifting 2023 full-year growth rate to 5.5% yoy.
- The implementation of fiscal expansion policy and falling domestic interest rates are the two main factors driving economic recovery in 2H23.

### Vietnam's economic growth was low in 2Q23 as headwinds lingered

According to General Statistics Office (GSO), Vietnam's GDP grew only by 4.1% yoy in 2Q23, a slight improvement from 3.3% yoy growth in 1Q23. Regarding to three main pillars of the economy, industry and construction sector expanded by 2.5% yoy while service and agriculture sector increase by 6.1% yoy and 3.2% yoy, respectively. For 1H23, Vietnam's economy grew by 3.7% yoy, the second lowest level in 2011-2023 period. Key factors hindering Vietnam's economic growth in the first half of 2023 include falling export orders, high lending rates and a sluggish real estate market.

### We expect Vietnam's economy to accelerate recovery in 2H23

We expect Vietnam's GDP to increase 7.1% yoy (+/-0.3% pts) in 2H23F (vs. +3.7% yoy in 1H23), thus lifting 2023 full-year growth rate to 5.5% yoy (+/-0.2% pts). We expect Vietnam's economy to maintain its recovery momentum next year and forecast GDP growth of 6.9% yoy (+/-0.3% pts) in 2024F. The main supports come from: (1) The government implements expansionary fiscal policy to support growth, (2) Lower lending interest rates help stimulate consumption and private investment and (3) Vietnam's agricultural and manufacturing export orders are likely to recover from 4Q23.

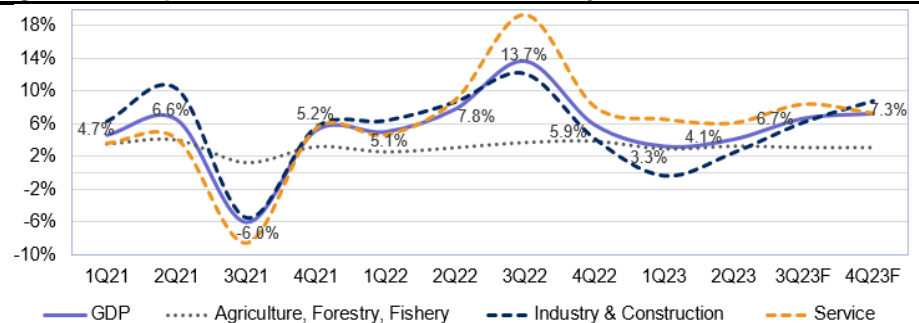
### Vietnam's export could rebound significantly from 4Q23

We expect Vietnam's exports to rebound in 4Q23 due to (1) the decrease in inventories in the developed countries will stimulate demand for Vietnam's exports, (2) the cycle of replacing old smartphones with newer ones is 25.3 months, or about 2 years, which will boost demand for Vietnam's smartphone exports from 4Q23, (3) The full impact of demand recovery from China after the economy reopens.

### Interest rates likely to fall further in 2H23

We forecast the average 12-month deposit interest rate drop to 6.0-6.2% p.a by the end of 2023, based on the following reasons: (1) the ongoing impacts of the SBV's rate cuts, (2) weak credit demand due to economic slowdown and gloomy real estate market, (3) the government will further promote public investment, thereby injecting more money into the economy and (4) the SBV still has room to decrease its policy rates. In addition, we believe that lending interest rates would decrease significantly in 2H23 as the cost of capital of commercial banks is decreasing thanks to: (1) the impacts of SBV's rate cuts and (2) SBV issued Circular 02 allowing extension of provision for bad debts.

Figure 1: We expect Vietnam's GDP to accelerate recovery in 2H23



Source: GSO, VNDIRECT RESEARCH

Analyst(s):



Hinh Dinh Quang

hinh.dinh@vndirect.com.vn

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### Vietnam's economic growth was low in 2Q23 as headwinds lingered

According to GSO, Vietnam's GDP grew only by 4.1% yoy in 2Q23, a slight improvement from 3.3% yoy growth in 1Q23. Regarding to three main pillars of the economy, industry and construction sector expanded by 2.5% yoy while service and agriculture sector increase by 6.1% yoy and 3.2% yoy, respectively. For 1H23, Vietnam's economy grew by 3.7% yoy, the second lowest level in 2011-2023 period. Key factors hindering Vietnam's economic growth in the first half of 2023 include falling export orders, high lending rates and a sluggish real estate market.

### The recovery of industry and construction was slow as external orders continued to decline

Industry and construction sector edged up 2.5% yoy in 2Q23 after recording a negative growth rate in 1Q23. However, this growth is much lower than the 8.7% growth rate in the same period last year.

Among sub-sectors, construction saw impressive improvement with a growth rate of 7.1% yoy recorded in 2Q23 (vs. +1.9% yoy in 1Q23) as the government stepped up public investment in the past few months. Moreover, mining sub-sector expanded by 1.2% yoy in 2Q23 after falling 4.1% yoy in the previous quarter. The recovery in mining activity mainly came from increasing production of natural gas and crude oil. In addition, increased demand due to hot weather also supported both electricity and water supply sub-sectors to improve growth in the second quarter of 2023, as shown in the table below. In contrast, the manufacturing sub-sector remained struggling amid a continued decline in export orders and recorded a modest growth of 1.2% in 2Q23.

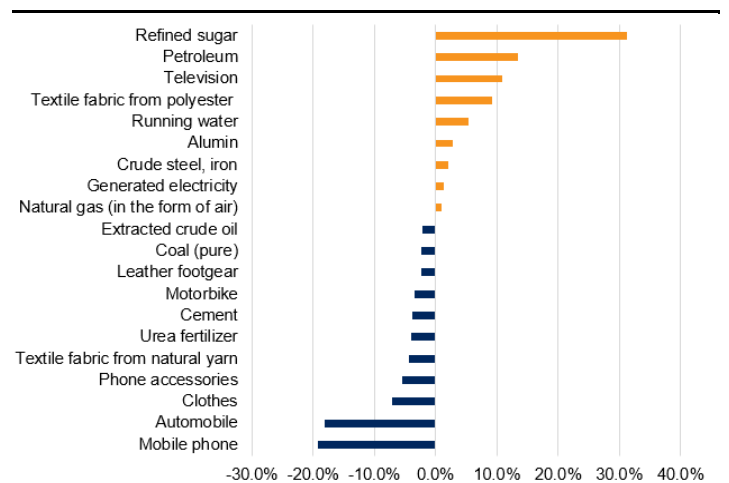
In 1H23, the industry and construction sector grew only by 1.1% yoy, the lowest 1H growth rate in the 2011-2023 period. Declining export and manufacturing orders, and a sluggish real estate market were the main reasons for the slowdown of industry and construction sector in 1H23.

**Figure 2: Industry and construction sector witnessed very low growth rate in 1H23**

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Industry & Construction	6.3%	10.4%	-5.5%	5.6%	6.4%	8.7%	12.2%	4.2%	-0.4%	2.5%
Industry	6.3%	11.2%	-4.4%	6.5%	7.0%	9.5%	11.1%	3.6%	-0.7%	1.6%
Mining	-8.5%	-4.7%	-9.1%	-2.7%	1.1%	4.5%	6.4%	7.9%	-4.1%	1.2%
Manufacturing	8.9%	13.4%	-4.1%	8.0%	7.7%	11.1%	11.6%	3.0%	-0.5%	1.2%
Electricity, gas, steam and air condition supply	4.3%	12.8%	-2.6%	5.5%	7.1%	4.5%	11.6%	4.5%	-0.2%	3.7%
Water supply, sewerage, waste management	5.4%	7.8%	-0.2%	3.6%	6.5%	6.3%	9.5%	8.2%	4.7%	6.1%
Construction	6.5%	6.5%	-10.1%	2.1%	3.3%	4.9%	17.5%	6.7%	1.9%	7.1%

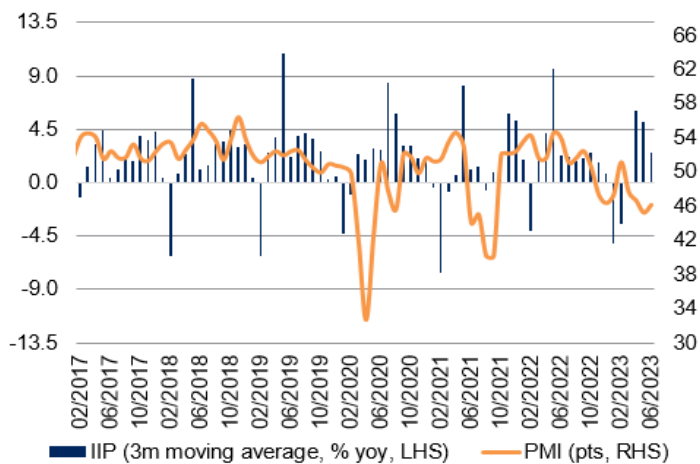
Source: GSO, VNDIRECT RESEARCH

**Figure 3: Output growth of some key industrial products in 1H23**



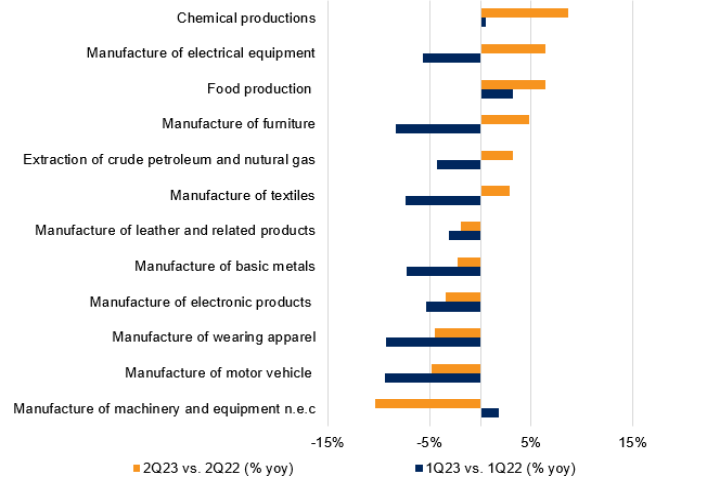
Source: GSO, VNDIRECT RESEARCH

**Figure 4: PMI fell below 50-pt level in Mar-Jun period**



Source: GSO, VNDIRECT RESEARCH

**Figure 5: Industrial production index (IIP) by category**

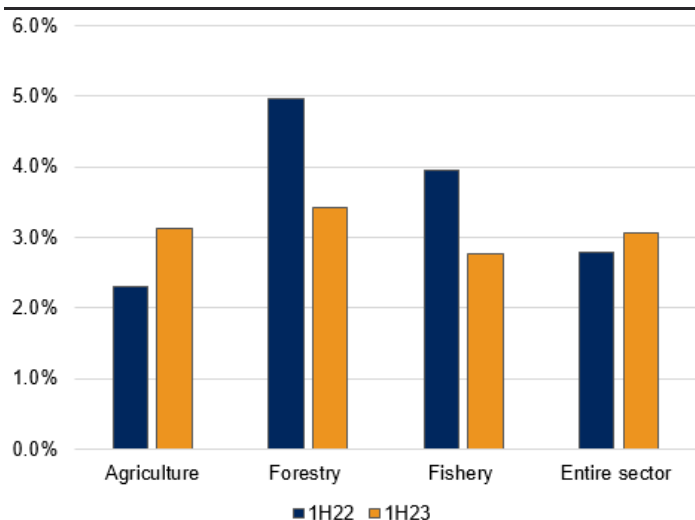


Source: GSO, VNDIRECT RESEARCH

### The agriculture, forestry and fishery sector grew higher in 2Q23

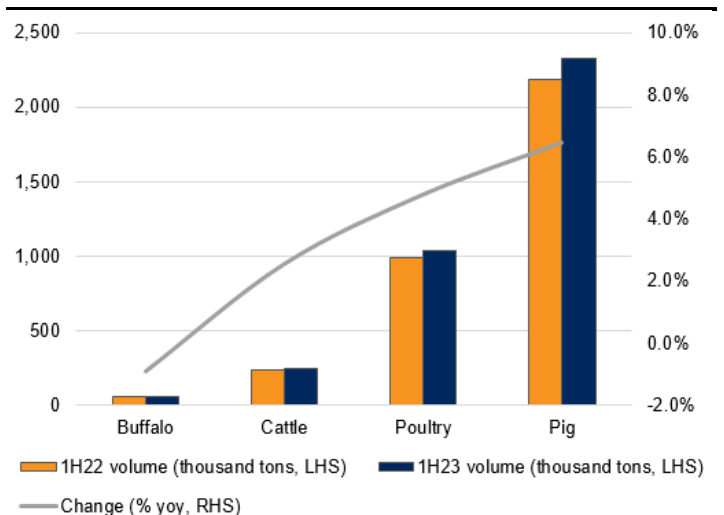
The agriculture, forestry and fishery sector rose 3.2% yoy in 2Q23, improving from 2.9% yoy growth in 1Q23. Specifically, the agriculture sub-sector grew by 3.4% yoy in 2Q23 thanks to impressive increases in food crop yields. On the other hand, the growth rate of both forestry and fishery sub-sectors decelerated in 2Q23 to 3.2% yoy and 2.7% yoy, respectively, due to lower export demand. For 1H23, the agriculture, forestry and fishery sector expanded by 3.1% yoy, higher than the growth rate of 2.8% yoy in 1H22. Increased planted area and higher food crop productivity contributed the most to the sector's improvement in the first half of 2023.

**Figure 6: The agriculture, forestry and fishery sector grew steadily in 1H23**



Source: GSO, VNDIRECT RESEARCH

**Figure 7: Main products of livestock**



Source: GSO, VNDIRECT RESEARCH

### Service sector maintained its growth momentum

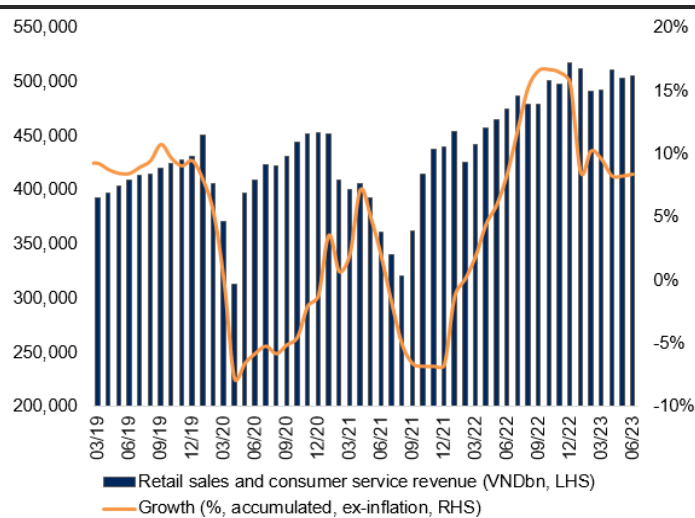
Service sector continued to be the main growth driver of Vietnam's economy with a growth rate of 6.1% yoy recorded in 2Q23. For 1H23, the service sector

grew by 6.3% yoy (vs. +6.6% yoy in 1H22). Solid service sector performance in 1H23 was contributed by:

- **The strong recovery of international arrivals:** Specifically, Vietnam welcomed about 5.6m international visitors in 1H23, 9.3x over the same period last year but still less than 80% compared to the same period in 2019 (pre-pandemic level). The number of international visitors in 1H23 is 1.5 times higher than the total number of international visitors to Vietnam in the whole year of 2022 and exceeds two-third of the government's plan for 2023. Meanwhile, the total number of domestic tourists reached 64m in 1H23 (+5.8% yoy). Total revenue from tourism reached VND343.1tr in 1H23 (+29% yoy). As a result, sub-sectors related to tourism recorded high growth rate in 1H23, including accommodation and food activities (+15.1% yoy), arts, entertainment and recreation (+12.1% yoy).
- **Stable domestic demand:** Per GSO data, gross retail sales of consumer goods and services rose 10.9% yoy in 1H23 (vs. +12.2% yoy in 1H22). If excluding the price factor, this indicator rose 8.4% yoy, equivalent to the level in the same period in 2022. Thanks to sustainable recovery of domestic consumption, the wholesale and retail sub-sector grew by 8.5% year-on-year in 1H23, a strong improvement from the growth rate of 5.8% yoy in 1H22.

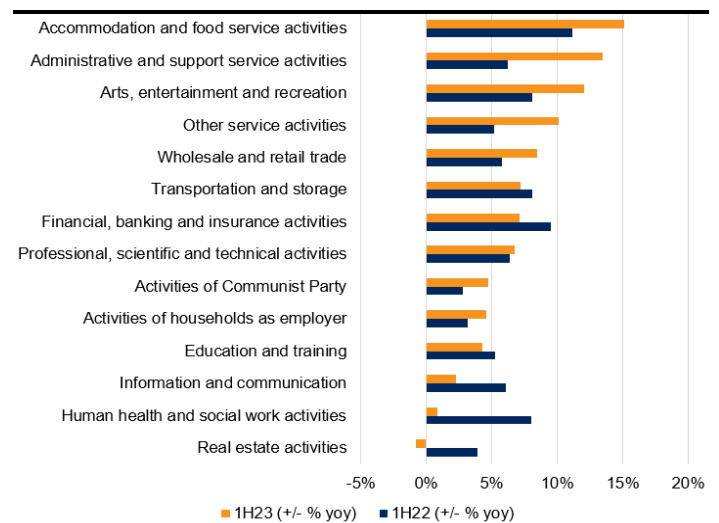
On the contrary, due to the sluggish real estate market and low credit demand, the real estate sub-sector and financial-banking-insurance sub-sector witnessed a slowdown in growth in the first half of 2023.

**Figure 8: Gross retail sales of consumer goods and services grew steadily by 10.9% yoy in 1H23**



Source: GSO, VNDIRECT RESEARCH

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



Source: GSO, VNDIRECT RESEARCH

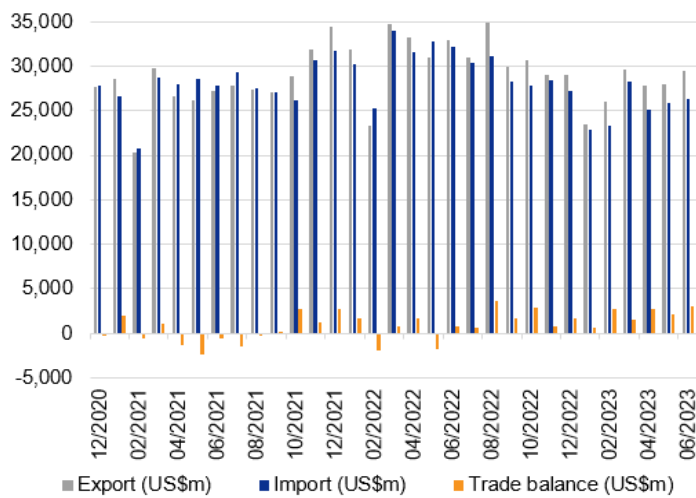
### Trade activities remained weak amid global economic slowdown

#### Exports slumped in 1H23 due to lower external demand for Vietnam's export amid global economic slowdown

The persistent decline in external orders for the manufacturing sector as well as falling commodity prices caused Vietnam's export value to decrease in 1H23. According to Vietnam Customs, Vietnam's export turnover declined by 12.0% yoy to US\$164.7bn in 1H23. The decline was seen in most of the key export items, including: phones all of kinds (-18.2% yoy), electric goods and computers (-7.9% yoy), machine and instrument (-8.3% yoy), textiles and garments (-15.4% yoy), and footwear (-16.8% yoy). On the other hand, a number of export items with positive growth in 1H23 include chemical products (+1.6% yoy), means of

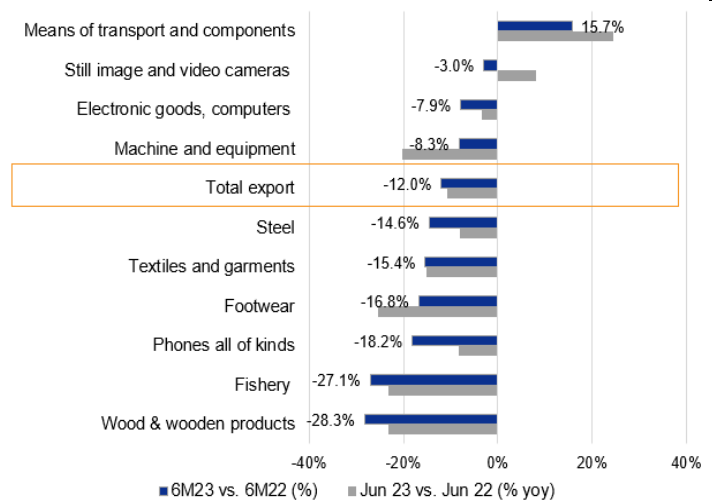
transport (+15.7% yoy), paper & related products (+11.1% yoy), rice (+32.2%) and fruit & vegetables (+60.1% yoy).

**Figure 10: Vietnam's export hit hard in 1H23**



Source: GSO, Vietnam Customs, VNDIRECT RESEARCH

**Figure 11: Top export products in term of value**

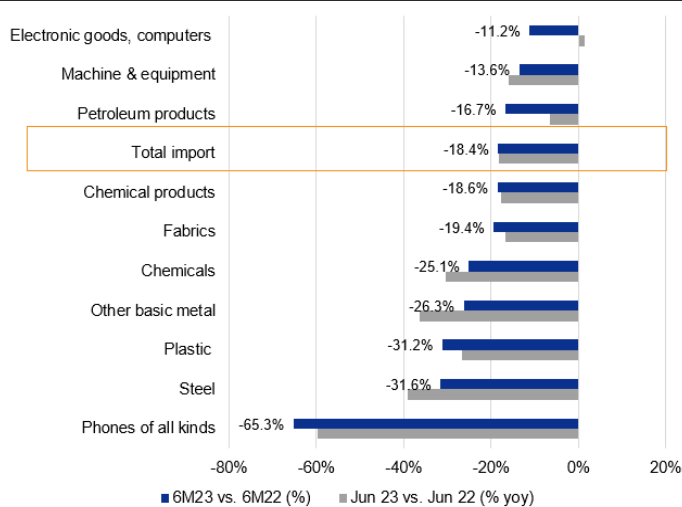


Source: Vietnam Customs, VNDIRECT RESEARCH

### Low imports reflected slowdown in manufacturing sector

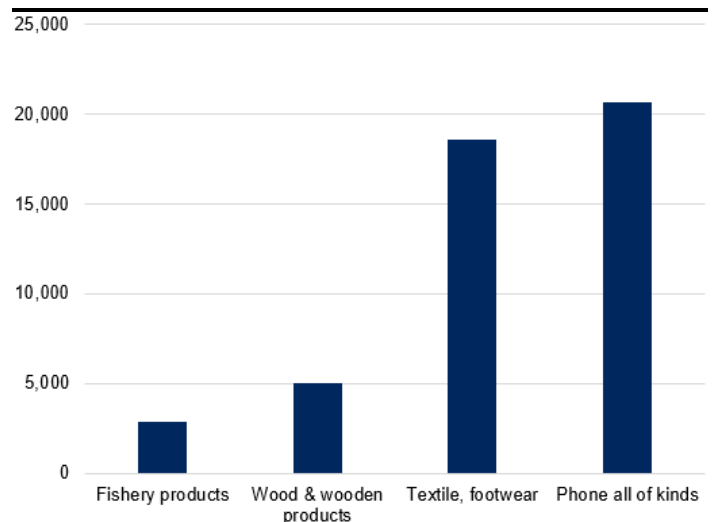
Import values decreased significantly in 1H23, reflecting weak demand for imported raw materials, capital goods and intermediate products amid a decline in new orders for manufacturing. According to GSO, Vietnam's import spending in 1H23 fell 18.4% yoy to about US\$151.8bn. In which, the import of intermediate goods (for production activities) dropped sharply by 20.0% yoy while the import of capital goods and the import of raw materials decreased by 13.8% yoy and 22.6% yoy, respectively. In addition, the imports of consumer goods and other goods slid by 8.2% over the same period last year. Regarding to trade balance, Vietnam net export US\$12.8bn in 1H23, a strong improvement from a trade surplus of US\$1.1bn in 1H22.

**Figure 12: Top import products in term of value**



Source: Vietnam Customs, VNDIRECT RESEARCH

**Figure 13: Top net export products in 1H23 (Unit: US\$m)**



Source: Vietnam Customs, VNDIRECT RESEARCH



## We expect Vietnam's economy to accelerate recovery in 2H23

We expect Vietnam's GDP to increase 7.1% yoy (+/-0.3% pts) in 2H23F (vs. +3.7% yoy in 1H23), thus lifting 2023 full-year growth rate to 5.5% yoy (+/-0.2% pts). We expect Vietnam's economy to maintain its recovery momentum next year and forecast GDP growth of 6.9% yoy (+/-0.3% pts) in 2024F.

The main supports come from: (1) The government implements expansionary fiscal policy to support growth, (2) Lower lending interest rates help stimulate consumption and private investment and (3) Vietnam's agricultural and manufacturing export orders are likely to recover from 4Q23 amid declining inventories in developed markets.

Downside risks to our implication include: (1) Higher-than-expected global inflation, (2) Stronger-than-expected DXY could put more pressure on Vietnam's exchange rate, (3) Slower-than-expected economic growth of Vietnam's major trading partners hit Vietnam's exports harder.

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	4.1	6.7	7.3
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	21.6	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	3.3	4.2	2.4	2.8	3.6
Credit growth	% ytd	13.9	13.7	12.1	13.6	14.0	13.0				
Credit to GDP	% of GDP	102.9	106.3	114.3	123.2	125.3	130.7				
M2 growth	% ytd	12.4	14.8	14.7	10.7	6.2	11.2				
Refinancing rate	%	6.3	6.0	4.0	4.0	6.0	4.5	5.5	4.5	4.5	4.5
12M deposit interest rate (year-end)	%	6.9	7.0	5.6	5.6	7.8	6.1	7.5	6.6	6.3	6.1
Government bond 10Y (year-end)	%	5.1	3.4	2.4	2.1	4.8	2.7	3.2	2.6	2.7	2.7
Exchange rate (USD/VND)	% yoy	22,853	23,173	23,103	22,826	23,633	23,688	23,471	23,583	23,740	23,688
Fiscal balance	% of GDP	2.2	2.9	2.9	3.4	3.6	3.9				
Public debt	% of GDP	46	43	44	43	38	36				

Source: VNDIRECT RESEARCH, GSO, SBV, MOF

## #Supporting factor 1: Vietnam has relatively favorable conditions to implement expansionary fiscal policy to promote economic growth

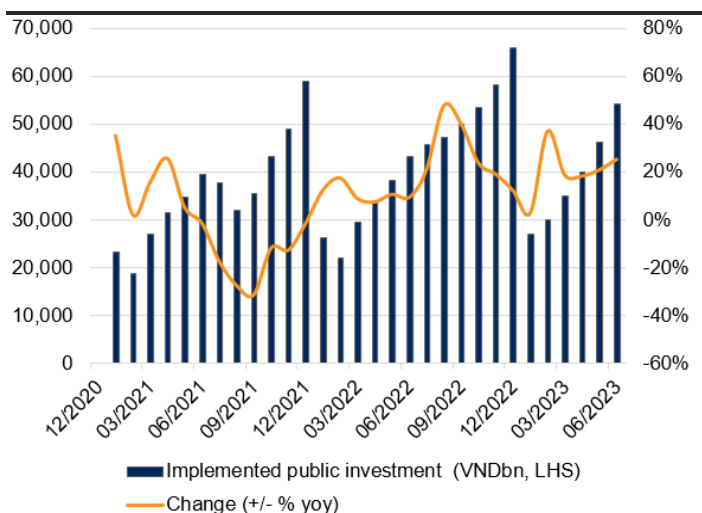
### We believe that the government will be more aggressive in public investment in 2H23

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 Jun 23 rose 25.3% yoy to VND54.2tr (vs. +20.9% yoy in May 2023). For 1H23, the implemented state capital rose 20.5% yoy to VND232.2tr, which is higher than the 10.4% yoy growth rate of the same period last year. The implementation public investment capital in 1H23 reached 33% of the whole year 2023 plan. We expect the government to be more aggressive in public investment in 2H23 in order to complete at least 95% of the plan to disburse public investment capital

in 2023 (National Assembly's plan of VND711,684bn). We now see several supporting factors to further accelerate public investment projects this year, including:

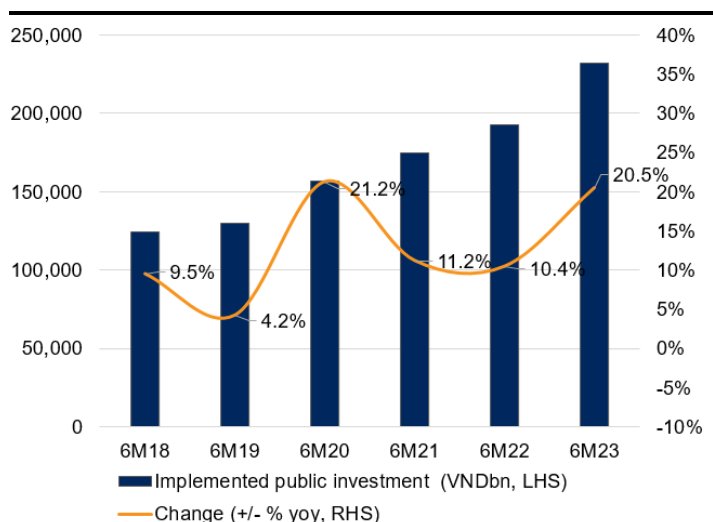
- **Low public debt give space for loose fiscal policy to support economic recovery:** Thanks to solid GDP growth in 2016-2022 period and tight spending controls, Vietnam's public debt has fallen rapidly over the years from 51% at the end of 2016 to 38% by the end of 2022, which is much lower than Vietnam's public debt ceiling of 60% of GDP.
- **Yields of Vietnam's government bonds dropped sharply since the beginning of 2023:** As of Jun 28, in primary market, 10-year and 15-year G-bond yields dropped 205 and 195 bps ytd, to 2.60% and 2.85%, respectively. On secondary market, Vietnam's 5-year and 10-year G-bonds yields decreased 258 and 219 bps ytd, to 2.15% and 2.63%, respectively.
- **Domestic inflation cooled down significantly in the past few months:** Vietnam's average inflation dropped down to 2.4% yoy in 2Q23 from 4.2% yoy in 1Q23. As inflationary pressures ease, the government may consider loosening fiscal policy more to support economic recovery.

Figure 15: Public investment grew steadily



Source: GSO, VNDIRECT RESEARCH

Figure 16: Implemented public investment rose 20.5% yoy in 1H23



Source: GSO, VNDIRECT RESEARCH

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

Project	Total investment (VND bn)	Estimated construction progress									
		2019	2020	2021	2022	2023	2024	2025	2026	2027	
Cam Lo - La Son	7,700	Completed									
Cao Bo - Mai Son	1,600	Completed									
My Thuan 2 bridge	5,000		Under construction								
Mai Son - Highway 45	12,920		Under construction								
Eleven sub-projects of East North-South expressway (Phase 1)	10,853		Under construction								
Phan Thiet - Dau Giay	14,360		Under construction								
Nghi Son - Dien Chau	8,380			Under construction							
Highway 45 - Nghi Son	6,330			Under construction							
Dien Chau - Bai Vot	13,340				Under construction						
Nha Trang - Cam Lam	7,615				Under construction						
Cam Lam - Vinh Hao	13,690				Under construction						
Long Thanh International Airport (Phase 1)	109,112					Under construction					
Twelve sub-projects of East North-South expressway (Phase 2)	146,990					Under construction					
Ring Road 3 (HCMC)	75,378						Under construction				
Ring Road 4 (Hanoi)	85,813							Under construction			
<b>Total</b>	<b>519,081</b>										

Notes:  Completed  Under construction  Not started yet

Source: VNDIRECT RESEARCH

### More fiscal support policies take effect in 2H23

The government has implemented a number of fiscal support policies in 2H23, focusing on tax and fee reduction (2% VAT reduction, 50% registration tax reduction for domestically produced cars). The tax-cut policy aims at recuperating domestic demand and consumption. In addition, the government has increased basic salary for state officials and employees from Jul 1. This increase will significantly improve the income of wage earners from the state budget. It is estimated that the state budget spending on this policy in 2023 will amount to VND44 trillion. At the same time, the government has also increased pensions and social insurance benefits paid by the state budget from Jul 1. The amount of budget to spend on these policies is estimated at VND3,550bn. Last but not least, state-owned enterprises (such as PVN) may also increase investment in the coming times to coordinate with the government's fiscal policy. A typical example is the fact that PVN has planned to launch a number of large investment projects in the coming period, including some medium size projects like Kinh Ngu Trang, Lac Da Vang, and a multi-billion-dollar project Block B - O Mon

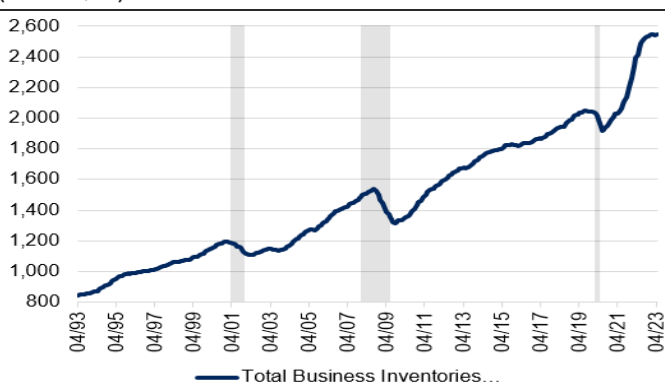
**Figure 18: List of some fiscal support policies implemented in 2023**

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
Decree 41/2023/ND-CP on automobile registration tax reduction	Registration fees for domestically manufactured and assembled cars	Accordingly, the government plans to reduce 50% of registration fees for domestically manufactured and assembled cars. The application period is 6 months, from July 1 to the end of this year.
Decree 44/2023/ND-CP on value-added tax reduction in 2023	The government proposes to reduce the VAT rate by 2 percentage points for some goods and services taxable at 10%	- Enterprises are entitled to apply the VAT rate of 8% for goods and services currently applying the 10% tax rate (except in the fields of finance, banking, real estate, telecommunications, etc.) - 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 eligible for VAT reduction (according to Clause 1, Article 1 of draft resolution)

Source: VNDIRECT RESEARCH

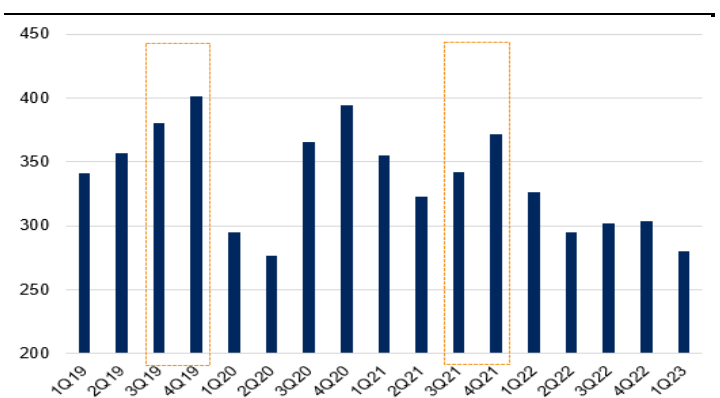
### #Supporting factor 2: Vietnam's export could be rebound significantly from 4Q23

**Figure 19: The U.S. total business inventories peaked in 1Q23 (unit:US\$bn)**



Source: GSO, VNDIRECT RESEARCH

**Figure 20: Global smartphone shipments (million products)**



Source: GSO, VNDIRECT RESEARCH



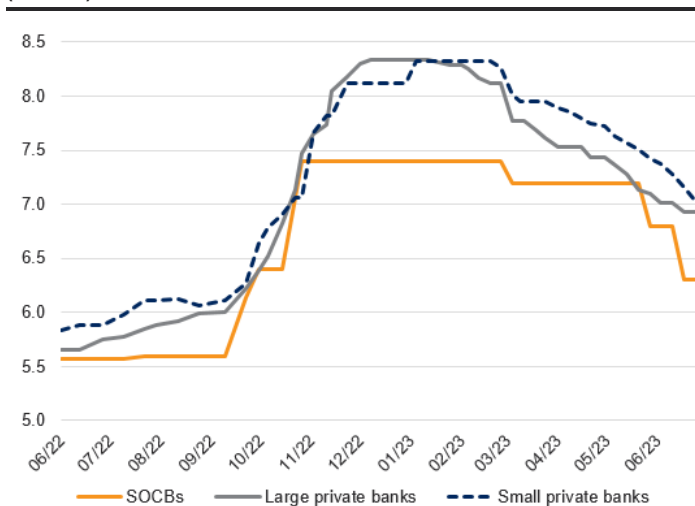
The sharp increase in the U.S. total business inventory is one of the most important factors that caused the number of new orders for Vietnam's exports to drop sharply in the 4Q22 to 2Q23 period. However, inventories in the US peaked at the end of 1Q23 and are expected to decline towards the end of 2023. Therefore, we expect Vietnam's exports to rebound in 4Q23 due to (1) the decrease in inventories in the developed countries will stimulate demand for Vietnam's exports, (2) the cycle of replacing old smartphones with newer ones is 25.3 months, or about 2 years (according to a research of China Mobile Terminal Lab), which will boost demand for Vietnam's smartphone exports from 4Q23 (note that exports of phones and components account for nearly 16% of Vietnam's total exports in 2022), (3) The full impact of demand recovery from China after the economy reopens.

### #Supporting factor 3: Lower lending interest rates help stimulate consumption and private investment

#### Deposit rates declined significantly in 1H23

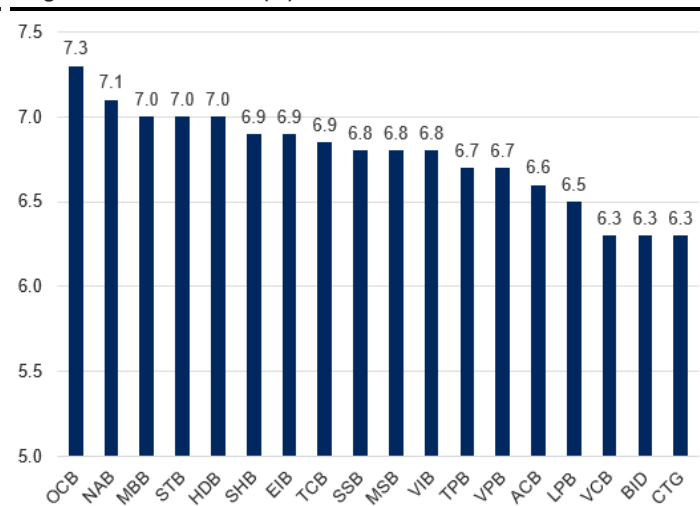
Since the beginning of 2023, the average 3-month deposit interest rate of commercial banks has decreased by about 137 bps, while the average 12-month deposit rate has decreased by 124 bps, as data at Jun 29, 2023. The main reasons for this trend include: (1) The reversal of monetary policy from tightening to easing by the SBV, (2) the improvement of banking liquidity thanks to the SBV's purchase of US\$6bn in foreign reserves and the acceleration of public investment, (3) low credit demand amid economic slowdown in 1H23.

Figure 21: Deposit rates declined significantly in the first half of 2023 (Unit: %)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 22: 12-month term deposit rates of some commercial banks range from 6.3% to 7.3% (%)



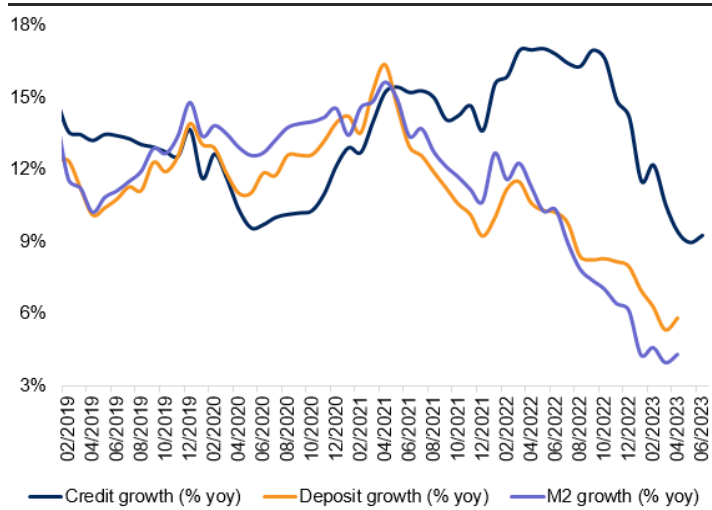
Source: Vietnam Customs, SBV, VNDIRECT RESEARCH

#### Interest rates likely to fall further in 2H23

We expect deposit and lending rates to maintain a downward trend in 2H23. Specifically, we forecast the average 12-month deposit interest rate drop to 6.0-6.2% p.a by the end of 2023, based on the following reasons: (1) the ongoing impacts of the SBV's rate cuts, (2) weak credit demand due to economic slowdown and gloomy real estate market, (3) the government will further promote public investment, thereby injecting more money into the economy and (4) the SBV still has room to decrease its policy rates.

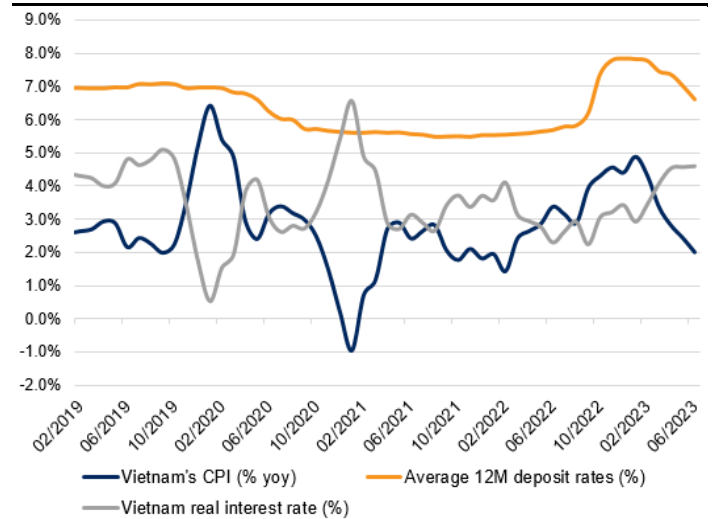
We believe that lending interest rates would decrease significantly in 2H23 as the cost of capital of commercial banks is decreasing thanks to: (1) the impacts of SBV's rate cuts and (2) SBV issued Circular 02 allowing extension of provision for bad debts. We think lower lending rates will be the key factor driving the recovery in private consumption and investment, which has been weakened in the first half of 2023 as lending rates remain high.

**Figure 23: Credit growth decelerated sharply in 1H23**



Source: BLOOMBERG, VNDIRECT RESEARCH

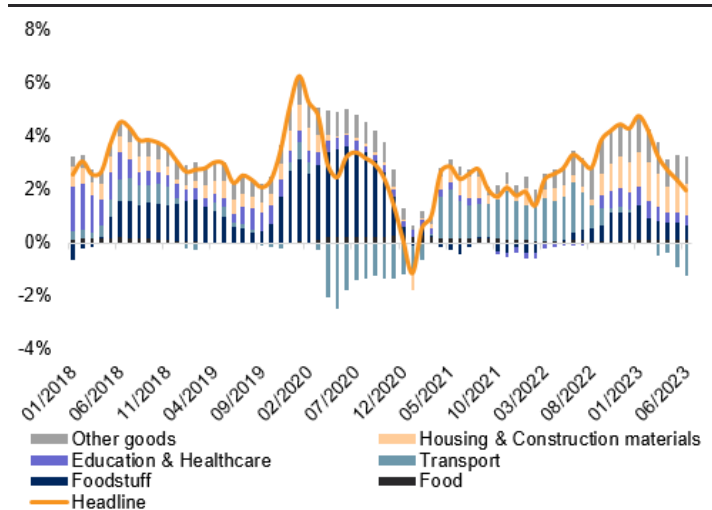
**Figure 24: Vietnam still has room to reduce interest rates further in the context of easing inflation pressure**



Source: Vietnam Customs, SBV, VNDIRECT RESEARCH

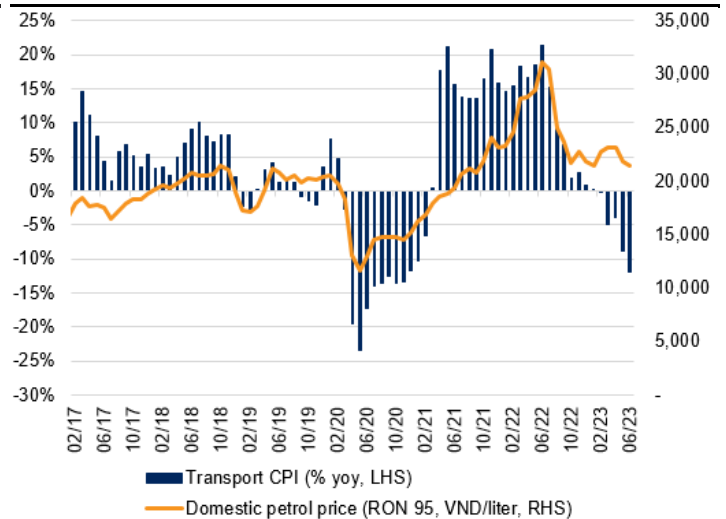
**Inflation would be under control in 2H23**

**Figure 25: The CPI increased by 2.0% yoy in Jun 2023, recorded the 5th consecutive month of deceleration**



Source: GSO, VNDIRECT RESEARCH

**Figure 26: The decrease in the transportation index supports the cool-down of inflation**



Source: GSO, VNDIRECT RESEARCH

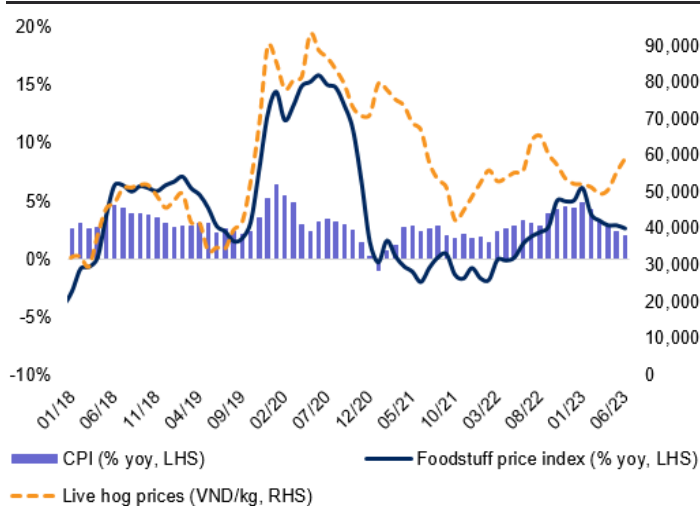
In Vietnam, inflation has cooled down significantly, increasing by 2.0% yoy in Jun 2023, recording the lowest increase in the past 16 months. In 6M23, Vietnam's CPI averaged at 3.3% yoy. The sharp drop in domestic gasoline prices is the main factor helping to reduce inflation pressure in 6M23.

We see a number of factors that could put more pressure on domestic inflation in 2H23: (1) Gasoline price difference between 2H23 and 2H22 will be much

smaller than price difference between 1H23 and 1H22, (2) Government raising basic salary for state officials and employees from 1 July, 2023 could put pressure on inflation.

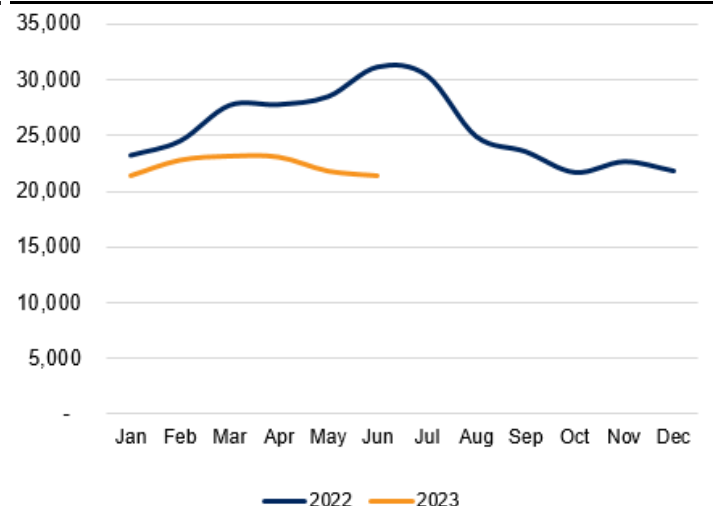
However, we believe that inflationary pressure will be kept under control due to weak domestic aggregate demand amid low economic growth. Overall, we lower the average inflation forecast for Vietnam in 2023 to 3.3% (+/-0.2% pts), thereby meeting the government's target of controlling inflation below 4.5%.

Figure 27: Live hog price edged up since Apr 2023



Source: GSO, VNDIRECT RESEARCH

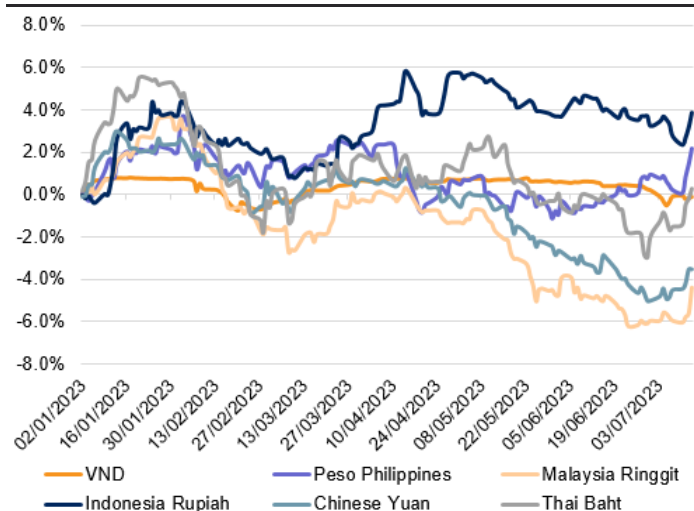
Figure 28: RON 95 gasoline price (Unit: VND/liter)



Source: GSO, VNDIRECT RESEARCH

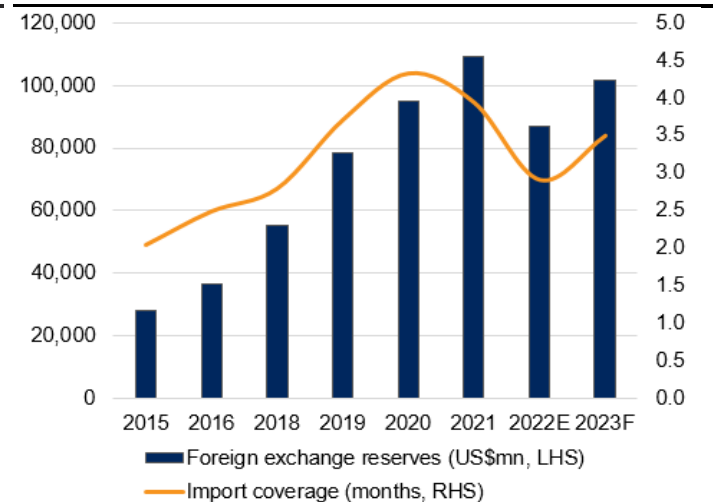
**The VND exchange rate would experience stronger volatility in 2H23**

Figure 29: Most regional currency strengthened against the US\$ in the past month (+/- % ytd)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 30: Vietnam's import coverage (month) and FX reserves



Source: Vietnam Customs, SBV, VNDIRECT RESEARCH

Pressure on VND exchange rate have been increased since the FED last meeting in Jun as Fed announced intention to lift its policy interest rates more in the second half of 2023. As of July 13, 2023, the US\$/VND rate increased to 23,659 (-0.1% ytd), up 0.7% since the last meeting of the Fed on Jun 13-14.

We see a number of factors that could put more pressure on the VND exchange rate in 2H23, including (1) The Fed funds rate is likely to remain at a peak until the end of 2023, while the SBV intends to lower interest rates to support growth, (2) Domestic inflation could pick up from late-3Q23. On the other hand, the VND

exchange rate will be supported by: (1) Ongoing trade surplus, (2) Stable FDI and remittances, (3) More foreign currency supply from equity sales to foreign investors, (4) Vietnam maintains high real interest rates.

In general, we think the exchange rate may fluctuate more strongly in the second half of 2023, however, the US\$/VND exchange rate is forecast to fluctuate by no more than +/- 2.0% compared to the beginning of 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.

### Hinh Dinh – Head of Macro & Market strategy

Email: [hinh.dinh@vndirect.com.vn](mailto:hinh.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](mailto:research@vndirect.com.vn)

Website: <https://vndirect.com.vn>