

# Macro Outlook in 2023

## Slow but steady

Some of KBSV's forecasts about Vietnam's economy in 2023 are as follows:

1) GDP growth in 2023 is forecast to increase by 6.0%. Growth supporters include: (i) Public investment; (ii) stable FDI disbursement flows given the global inflation cools down and major economies experience a mild recession in 4Q23; and (iii) stable domestic consumption (benefiting from Chinese visitors).

2) Average CPI is estimated at 4.1% for the whole year 2023, which is under limit of 4.0 – 4.5% set by the Government. Supportive factors are: (i) The Government always prioritizes stabilizing domestic gasoline prices over unpredictable developments in world petroleum prices; (ii) live-weight hog prices slightly gain to VND60,000 – 65,000 thanks to stable supply to meet domestic consumer demand; (iii) prices of construction materials cool down; and (iv) Vietnam does not have inflationary pressures stemming from loose fiscal and monetary policies accumulated during the two years of Covid like most other countries.

3) Deposit interest rates are forecast to decrease when M2 growth rises 13% YoY, deposit growth reaches 12%, and credit reaches 14% YoY. Besides, lending interest rates also tend to decrease slightly but lower than the decrease in deposit interest rates (about 0.4–0.7%).

4) USD/VND exchange rate should be stable at around VND23,500 when the USD supply is more stable.

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## I. Executive Summary

Although Vietnam economy started to show signs of deceleration in 4Q22, it still recovered compared to 2019 in most industries and fields. Some industries such as processing-manufacturing and services industries posted stronger increases than pre-Covid levels.

In 2023, we expect that signs of macroeconomic improvement will be maintained mainly thanks to the Government accelerating the disbursement of public investment capital and stable FDI inflows in the scenario that inflation cools down and major economies experience a mild recession in 4Q23, domestic consumption was stable (benefiting from China's reopening) although production and processing activities are weakening as interest rates remain high and business conditions are less favorable. Although exports continue to benefit from Vietnam's roadmap to participate in FTAs, they are also under pressure from the risk of a global economic recession, causing consumer demand of main trading partners to decline sharply.

Macroeconomic stability will continue to be emphasized and maintained in the coming period. KBSV believes that inflation and exchange rate developments in 2023 will be in line with the Government's targets.

**Table 1. Vietnam – Macro targets for 2023**

KBSV forecasts			
	Unit	2022	January 2023
GDP growth	% YoY	8.02	6.0
Average CPI	% YoY	3.15	4.1
Credit growth	% YTD	14.5*	14
12-month average deposit rate	%/year	6	6
Exchange rate	VND	23,650	23,450 – 23,900

Source: KB Securities Vietnam

\* Data as of December 22

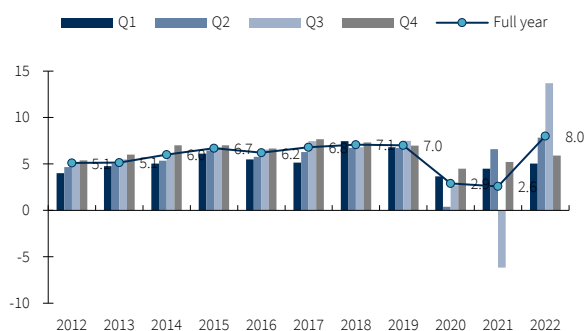
## II. 2022 macro overview

### 1. 2022 GDP growth

#### 2022 GDP showed an impressive recovery

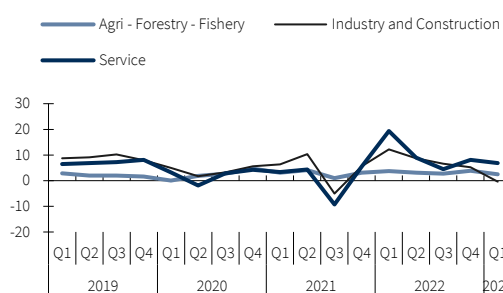
According to data from the General Statistics Office (GSO), GDP in 2022 is estimated to increase by 8.02% YoY, reaching the highest increase since 2011. This implied that manufacturing activities have gradually rebounded, and the Government's socio-economic boosting policies have become effective. In 4Q22 alone, GDP decelerated to 5.92% YoY, lower than the growth rate of 4Q of previous years before the Covid-19 pandemic, showing the negative impacts of the industrial production and construction sectors.

Fig 1. Vietnam – GDP growth by quarter (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 2. Vietnam – GDP growth by sector (% YoY)



Source: General Statistics Office, KB Securities Vietnam

*From the demand side*, consumption, private investment and FDI regained recovery momentum.

#### Consumption growth is on the rebound

Final consumption growth in 2022 rose by 7.18% YoY, showing the recovery trend of the economy. Commercial and service activities are busy again with the total retail sales of goods and services for the whole year reaching VND5,680 trillion, surging 19.8% YoY thanks to (1) higher prices of goods and services (up 4.6% YoY) amid inflation when prices of goods and services and (2) low bases in the last year due to the Covid - 19 pandemic. Retail sales of goods reached VND4,476 trillion (up 14.4% YoY), estimated to only reach 82.5% of revenue in normal conditions (not affected by the Covid-19).

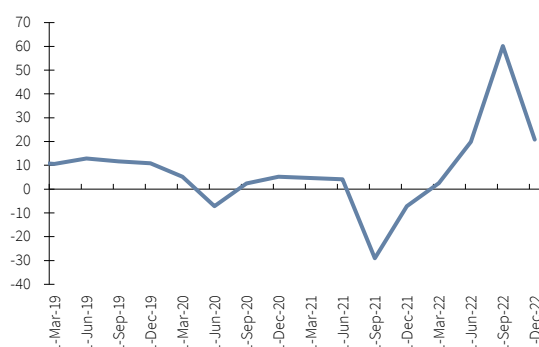
In the 4Q alone, final consumption increased by 7.12% YoY, contributing 82.6% to the overall growth rate of GDP. This showed that domestic consumption is still on the recovery path and is more positive than the world average before the crisis. The risk of recession in major economies is increasing.

### Investment in the whole society recovered strongly

Total social investment capital in 2022 reaches VND3,220 trillion, strongly rebounding +11.2% YoY. Of that, the private sector contributed VND1,873.2 trillion (+8.9% YoY), the public sector 511.6 billion VND (+18.8% YoY) and FDI reached 521.9 trillion VND (+13.9% YoY).

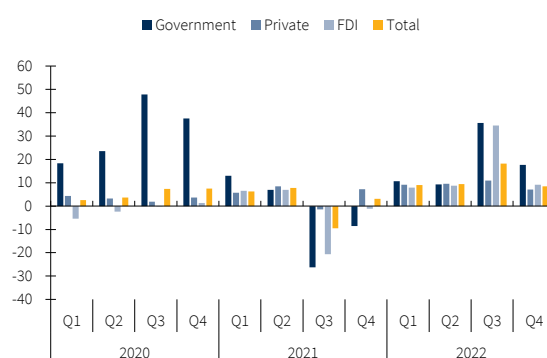
In 4Q alone, total social investment capital reached VND1089 trillion (+8.5% YoY). The largest contribution came from the private sector, reaching VND647 trillion (+7.1%), followed by the public sector with VND178 trillion (+17.7% YoY), and the FDI sector VND164 trillion (+9.1% YoY).

Fig 3. Vietnam – Retail and service revenue growth (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 4. Vietnam – Total social investment (% YoY)



Source: General Statistics Office, KB Securities Vietnam

*From the supply side*, the industrial and construction and the service sectors maintained their recovery momentum from the beginning of the year (Figure 2).

### The industrial and construction sectors maintained recovery momentum but tended to slow down from 4Q

The industrial and construction sector in 2022 maintained a recovery momentum of 7.78% YoY. The industrial sector gained 7.69% YoY thanks to the manufacturing and processing industry (+8.1% YoY, contributing 2.09ppts to the overall increase in GDP). 2022 IIP advanced 7.8% YoY and recorded growth in 61 provinces and cities across the country.

Particularly in 4Q, industrial production tended to slow down to 3.6% YoY, and the IIP slightly gained by 3% YoY due to a decline in orders, high input costs and shortage of raw materials.

### The service sector increased as many service activities gradually recovered

The service sector increased by 9.99% YoY as many service activities gradually recovered and grew strongly. Financial, banking and insurance activities increased by 9.03% YoY. The transportation and warehousing industry gained 14.2%, and the wholesale and retail industry rose 10.15% YoY. In particular, the accommodation and food service industry recovered strongly by 40.61% YoY after Vietnam reopened tourism activities in the new normal.

In 4Q alone, the service sector rose 8.12% YoY, continuing to maintain recovery momentum and positively contributing to GDP growth.

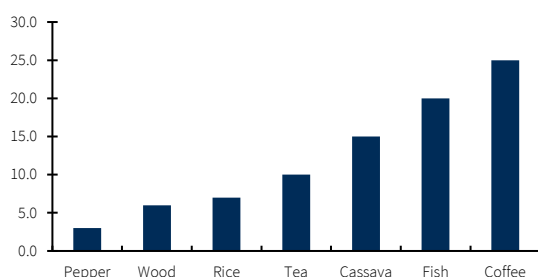
## The agriculture, forestry and fishery sector remained stable

The agriculture, forestry and fishery sector remains stable at 3.36% YoY, meeting domestic and export demands. Livestock farming is on the road to recovery but still facing difficulties due to rising animal feed prices. Aquaculture and fisheries processing activities recovered strongly, and exports of pangasius and shrimp surged on the demand in major foreign markets as global supply decreased.

The export turnover of some agricultural products increased throughout the year, helping to maintain the growth rate of the whole region (Figure 5).

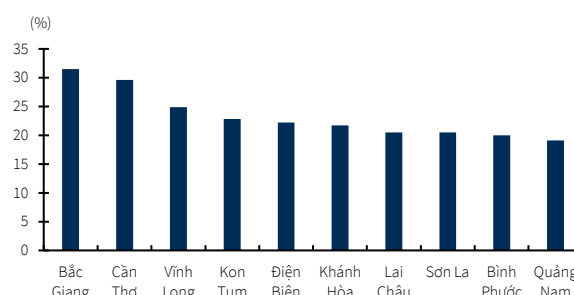
In 4Q, the agriculture, forestry and fishery sector rose 3.85% YoY, growing steadily and maintaining its supporting role to the economy.

Fig 5. Vietnam – Export growth of agriculture, forestry and fisheries products in 2022 (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 6. Vietnam – 10 provinces with the strongest IIP growth in 2022



Source: General Statistics Office, KB Securities Vietnam

## 2. 2022 CPI

### Inflation pressure is increasing but still under control

Average CPI in 2022 increased by 3.15% YoY. The inflation tends to increase gradually due to the increased demand for raw materials for production after Covid while the congestion in the supply chain is existing due to: (i) Military conflict between Russia and Ukraine and (ii) China's Zero Covid strategy and blockade in major cities, ports and border gates (causing commodity prices on the international market to surge).

The positive point is that in 4Q22, gasoline prices cooled down in line with world gasoline price developments, and pork prices slightly decreased, helping to restrain the sharp increase in inflation.

Core CPI tends to be similar to headline CPI, rising 2.59% YoY in 2022.

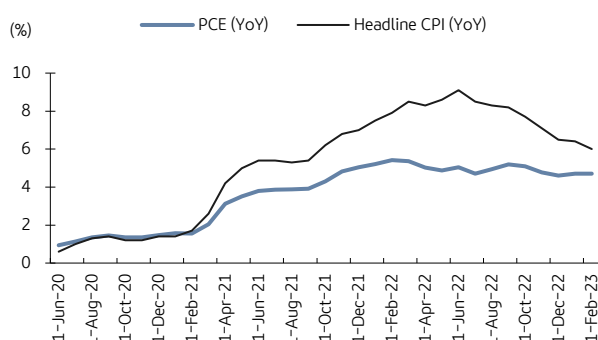
### Petrol and gas prices are the two factors that have the strongest influence on CPI

In 2022, the main factors affecting CPI include:

- 1) Prices of food items increased by 1.6% YoY, causing headline CPI to increase by 0.17ppts;
- 2) Construction material prices advanced 3.11% YoY due to the increase in prices of cement, iron, steel, and sand, causing the headline CPI to increase by 0.59ppts;
- 3) Domestic gasoline prices increased by 28.01% YoY, causing the headline CPI to increase by 0.17ppts;

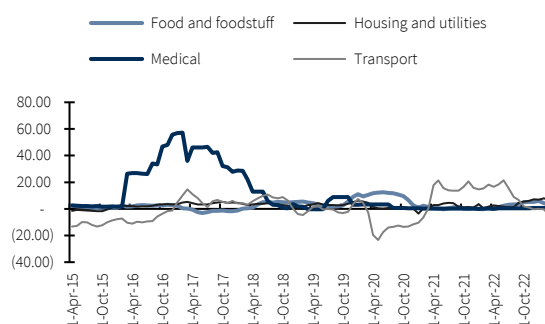
4) Tuition fees increased by 1.44% YoY, causing the headline CPI to rise by 0.59ppts due to some provinces and centrally run cities increasing tuition for the 2022–2023 school year.

Fig 7. Vietnam – Core & headline CPI (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 8. Vietnam – Movements of some main commodities (% YoY)



Source: General Statistics Office, KB Securities Vietnam

### 3. 2022 interest rates

#### The SBV raised policy rates twice

On September 22, 2022 and October 24, 2022, the SBV issued an official document simultaneously increasing policy rates: Refinancing rates, rediscount interest rates and ceiling deposit interest rates for terms from one month to six months were raised by 100bps.

#### Overnight interbank interest rates tended to decrease, implying that there was more cash in the system

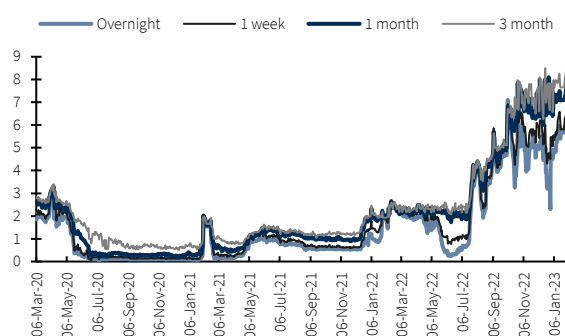
The end of 3Q is when system liquidity is under the most pressure when interbank interest rates increased sharply in all terms, especially overnight interbank interest rates, and maintained at a high level in the last two months of the third quarter. The overnight, one-week and one-month interest rates gained +410bps, +385bps and +297bps respectively compared to the end of 2Q. At the end of 4Q, interbank interest rates cooled down. The overnight interbank interest rates dropped sharply up to 140bps, showing that there was more cash in the system. The overnight, one-week and one-month interest rates at the end of December changed by -7 bps, +61bps and +250bps respectively compared to the end of 3Q.

#### Deposit interest rates tended to increase sharply

In 4Q, deposit interest rates tend to increase in both short and long terms because banks' liquidity is under a lot of pressure from adverse macro developments, especially in October and November: (i) The SBV sold USD from foreign exchange reserves, withdrawing more than VND400 trillion from circulation. (ii) The event of Van Thinh Phat Group and Saigon Commercial Joint Stock Bank (SCB) negatively impacted customer sentiment, causing a large number of customers to withdraw money from SCB and some other small banks. (iii) State budget disbursements are still slow compared to requirements, leading to a high level of State treasury balances at the SBV, which increased the unused budget and reduced the amount of money in the economy.

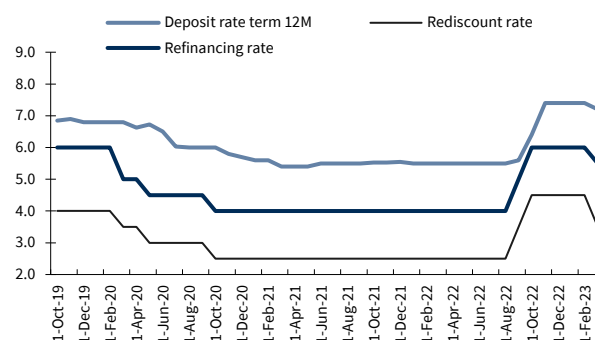
In addition, commercial banks have simultaneously raised deposit interest rates after the SBV raised policy rates and deposit interest rate ceilings. Small banks have high deposit interest rate increases (ranging from 2.5% – 3.5%), while state-owned banks have narrower fluctuations (around 2%).

Fig 9. Vietnam – Interbank interest rates (%)



Source: Bloomberg, KB Securities Vietnam

Fig 10. Vietnam – Policy & deposit interest rates (%)



Source: Bloomberg, KB Securities Vietnam

#### 4. 2022 USD/VND exchange rate

**The interbank USD/VND exchange rate at the end of December increased to 23,600 (+3.54%YoY)**

In 4Q, the interbank exchange rate fluctuated strongly, peaking at 24,865 (+9.7%YTD) in October and November as the demand for the USD increased as it was considered a haven currency amid complicated international market developments. The DXY index rose and peaked at 114.1 points (+ 18.2 YTD) in early October and stayed high at around 110 points (Figure 14). However, the USD/VND exchange rate has cooled down and dropped sharply from the peak of 24,865 to around 23,600 thanks to: (i) the sharp fall in the DXY index on concerns over increased risks of global economic recession, which could cause the Fed to stop raising rates by the end of 1Q13 and (ii) stable foreign currency supply in December thanks to the increase in remittances to Vietnam ahead of the Lunar New Year and good FDI disbursement.

In general, the exchange rate and foreign currency market have stabilized by the end of 2022, the interbank exchange rate increased to 23,600 (+3.54% YoY). Market liquidity was stable, and legal foreign currency needs were fully met. The market is stable thanks to the SBV's synchronous and flexible management of tools to stabilize the market: (i) Selling foreign currency to supplement the supply of foreign currency to the market (we estimated the SBV should sell about USD25 billion, of which USD18 billion has been sold and USD7 billion will be sold in 1Q23); (ii) increasing the USD selling rate at the exchanges since the beginning of the year and expanding the exchange rate range from  $\pm 3\%$  to  $\pm 5\%$  compared to the central exchange rate to find a new balance point under the pressure of large demand for USD ownership in the banking system; and (ii) reusing the T-bill issuance channel to control currency at a reasonable level, contributing to controlling inflation, stabilizing exchange rates and supporting the stabilization of market interest rates, and at the same



time offering to buy valuable papers with terms and volumes consistent with market developments and available capital situation to support credit institutions having difficulty borrowing capital on the interbank market, contributing to stabilizing the monetary market.

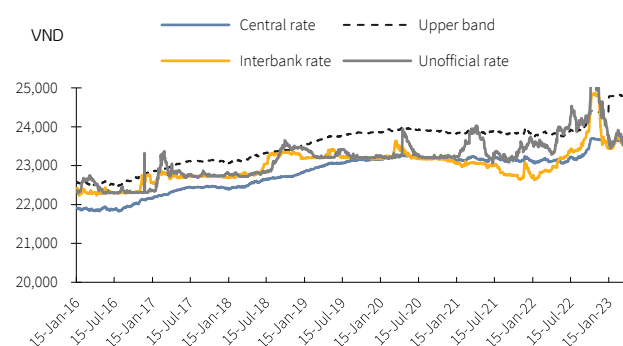
**The unofficial exchange rate cooled down and stabilized at the end of the year when the domestic – international gold price difference gradually narrowed**

In 2022, the unofficial exchange rate fluctuated strongly and increased when the domestic – international gold price difference widened to VND17.0 million/tael at times, causing the demand for smuggled gold to increase. However, the unofficial exchange rate gradually cooled down and stabilized at the end of the year (on December 31, the gap narrowed to 14.0 million VND/tael). As of the end of December, the USD/VND unofficial exchange rate only increased slightly by 0.34% YoY to 23,775.

**NEER and REER both rose strongly**

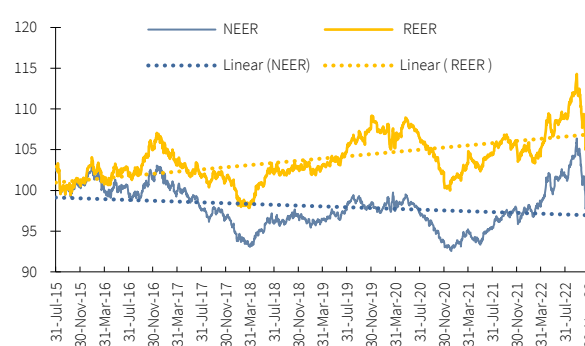
VND's NEER and REER lines tend to increase (Figure 12). As of December 31, 2022, NEER increased by 3.64% YoY and REER increased by 3.29% YoY (similar to VND's appreciation compared to a basket of currencies of trading partners). The increase in NEER was mainly due to strong USD appreciation. The slight increase in REER reflected that Vietnam's inflation during the year was still lower than that of its main trading partners. One of the most important goals of the SBV in 2022 is to stabilize the exchange rate and avoid importing inflation, so the VND currency depreciated the least compared to other currencies due to the strong increase of the USD, although this may have a negative impact on exports as the basket of currencies of trading partners continues to fall further.

**Fig 11. Vietnam – USD/VND exchange rates (VND)**



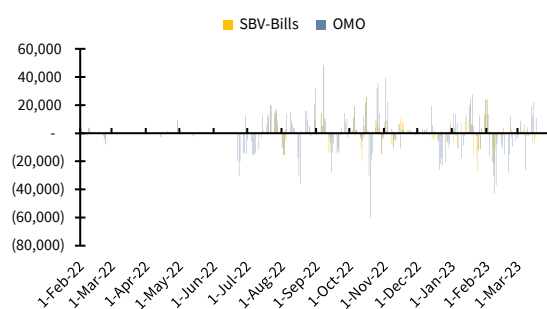
Source: Bloomberg, KB Securities Vietnam

**Fig 12. NEER and REER (point)**



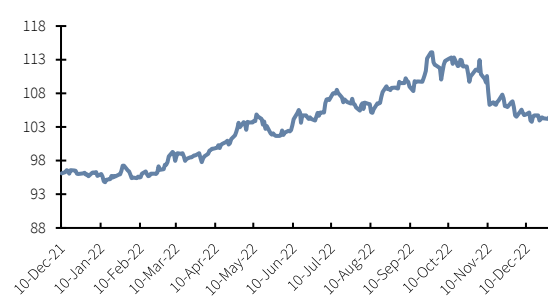
Source: Bloomberg, KB Securities Vietnam

Fig 13. Vietnam – Open market operations



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 14. US – DXY Index



Source: Bloomberg, KB Securities Vietnam

## II. 2023 macro outlook

### 1. 2023F GDP growth

#### GDP growth in 2023 is forecast to reach 6.0%

We forecast GDP growth in 2023 to reach 6.0%. Factors supporting growth include: (i) Motivation from public investment, (ii) stable FDI capital flow given inflation cools down and major economies experience a mild recession in 4Q, and (iii) positive domestic consumption (benefiting from Chinese visitors).

Factors negatively impacting GDP growth include: (i) Recession risk in the US and EU that negatively impacts export activities (partly offset by FTAs & trade with China when this economy is reopened) and (ii) domestic inflationary pressure and high interest rates which may hinder business operations.

**Table 2. Vietnam – Economic support package in 2022–2023**

Details	Expected size (VNDbn)
Disease prevention & health	60,000
Social security and employment support	53,150
Businesses, cooperatives, and business households support	110,000
Infrastructure development & development investment	113,850
Institutional, administrative, and business environment reform	13,000
<b>Total</b>	<b>350,000</b>

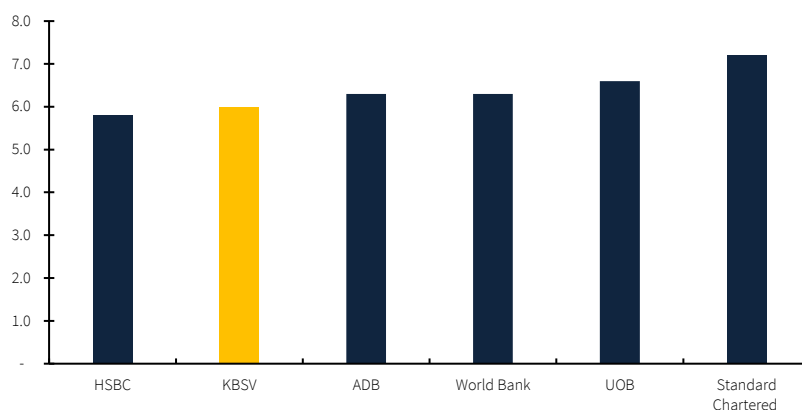
Source: Government reports, KB Securities Vietnam

**Table 3. Vietnam – Contents of the 2% interest rate package**

Criteria	Contents
<b>Support interest rate</b>	2%/year
<b>Scale</b>	VND40,000 billion
<b>Support period</b>	The loan with interest rate support is a loan that meets lending regulations with loan agreement signed and disbursed in the period from January 1, 2022 to December 31, 2023
<b>Subjects</b>	Aviation, transportation, warehousing, tourism, accommodation services, catering, education and training, agriculture, forestry and fisheries, processing & manufacturing, software publishing, computer programming and related activities, information service activities, and construction activities directly serving the above-mentioned economic sectors but not for real estate business purposes specified in the economic sector code
<b>Conditions for interest rate support</b>	Borrowers that are eligible for incentives. The loan with interest rate support is a loan in VND with no overdue principal and/or late payment interest.
<b>Interest rate support limit for each commercial bank</b>	Limit of support rate for commercial banks = 40,000* (loan balance of the registered bank/total balance of registered banks) but not exceeding the registration plan

Source: Decree 31/2022

Fig 15. Vietnam – 2023F GDP growth (%)



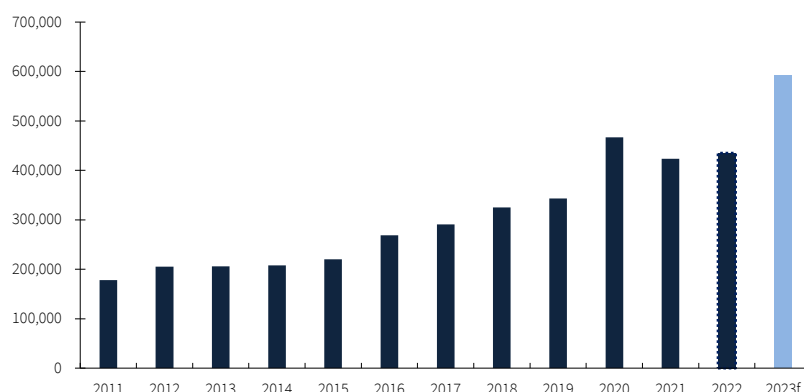
Source: HSBC, WB, ADB, UOB, Standard Chartered, KB Securities Vietnam

### Public investment is expected to be the mainstay of the economy

Public investment is still considered a key solution to stimulate the economy as it has spillover effects on other sectors in the long term. Disbursement of public investment capital in 2022 reached VND435.9 trillion, equal to 75.1% of the plan assigned by the Government. Recently, site clearance has been slow and raw material prices have increased, causing many contractors to tend to slow construction, waiting for unit prices to be adjusted. Furthermore, the medium-term public investment plan was only approved by the National Assembly in July 2021, so the beginning of 2022 will mainly continue to implement ongoing projects. Meanwhile, new projects are still in the process of preparation, this process usually takes about six to eight months.

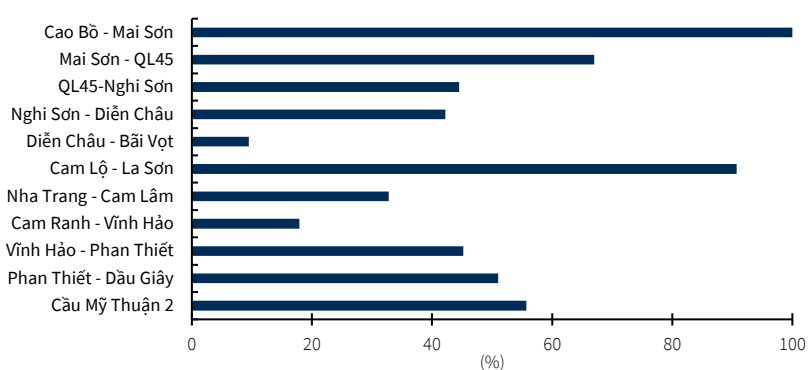
The National Assembly has approved the 2023 public investment plan with a total capital of over VND726,000 billion, an increase of about 25% compared to the 2022 plan. The disbursement rate of public investment capital is expected to improve and reach above 80% of the plan (compared to 75% achieved in 2022), helping to clear congested capital sources in the treasury and support economic liquidity. Drivers for public investment in 2023 include: cooling commodity prices of construction materials, low base levels in 2022 (as 2022 is the second year of implementing the five-year medium-term public investment plan, so the disbursement rate is usually low), and the weakening of other growth drivers in 2023, making public investment return as a fulcrum.

Fig 16. Vietnam – Disbursement progress of public capital (VNDbn)



Source: General Statistics Office, Ministry of Finance, KB Securities Vietnam

Fig 17. Vietnam – Progress of expressway projects (phase 1)



Source: KB Securities Vietnam

Table 4. Vietnam – Key public investment projects

Projects	Total investment (VNDbn)	Disbursement from the State budget (VNDbn)	Expected disbursement during 2021-2025 (VNDbn)	Stimulus packages in 2022-2023 (VNDbn)
<b>Expressway</b>	<b>273,973</b>	<b>262,969</b>	<b>74,251</b>	<b>92,634</b>
The east sections of the North – South Expressway (Phase 2)	146,990	146,990	47,169	72,476
Bien Hoa – Vung Tau Expressway	18,635	18,635	5,740	3,500
An Hui, Tien Giang – Cao Lanh, Dong Thap Expressway	6,054	6,054	1,864	1,204
Chau Doc – Can Tho – Soc Trang – Tran De expressway	49,745	49,745	14,247	3,800
Khanh Hoa – Buon Ma Thuot Expressway	17,435	17,435	5,231	2,320
Tuyen Quang – Ha Giang Expressway	6,264	4,800		3,584
Hoa Binh – Moc Chau Expressway	9,770	9,770		4,650
Ninh Binh – Nam Dinh – Thai Binh – Hai Phong Expressway	19,080	9,540		1,100
Traffic projects connecting gateways, regions, industrial zones, seaports	18,554	15,786	2,412	10,530
Long Thanh International Airport Phase 1	114,000		114,000	

Source: General Statistics Office, KB Securities Vietnam

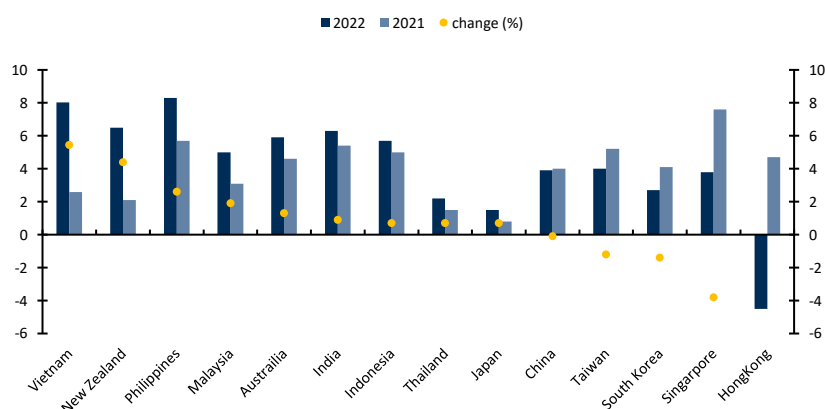
### FDI capital should continue to flow into Vietnam would thanks to stable exchange rates

We believe that positive foreign investor sentiment helped Vietnam's disbursed FDI capital flow to be stable as in 2022: (i) Vietnam's economy has recovered most impressively in the Asian region after being heavily affected by the Covid 19 (Figure 18). (ii) Vietnam is still an ideal destination thanks to favorable factors (according to the survey of investment advantages of countries in the ASEAN region conducted by JETRO Japan, Table 5 and Figure 19) thanks to the large number of signed FDI agreements, ideal geographical location, and abundant working-age workforce until 2024 (Figure 20 and 21) and low labor costs. Given the Government's supportive policies, Vietnam is in the top group in terms of infrastructure investment speed related to paved roads and highways in Southeast Asia (Figure 22 & 23). (iii) The disruption of China's supply chain and the fact that Western countries want to reduce their dependence on China are considered opportunities for Vietnam when foreign investors move their production bases out of China (Figure 24). In addition, the deep depreciation of the CNY may negatively affect foreign investors' confidence in the business environment, while the VND is considered more stable (Figure 25 & 26).

For the whole year 2022 alone, FDI disbursement reached USD22,396 million (+13.5% YoY) and additional registered capital continued to grow to 1USD0,118 million, up 12.2% YoY, reflecting foreign investors' optimism with business environment to diversify and expand the supply chain in Vietnam (Figure 27).

2022 newly registered FDI was USD12,446 million (-18.4% YoY). The sharp decline in new FDI registration was due to: (i) high base levels in 2021 with two newly registered billion-dollar projects worth USD4,410 million; (ii) fear of increased risks of global economic recession that makes foreign investors more cautious in registering new FDI; and (iii) the increasing growth rate of labor productivity across the entire Vietnamese economy, ranked first in ASEAN (Figure 28), but the level of labor productivity is still low and unstable compared to other countries in Asia (Figure 29), which could reduce the attraction of FDI inflows in the coming years.

Fig 18. Asia – GDP growth of countries



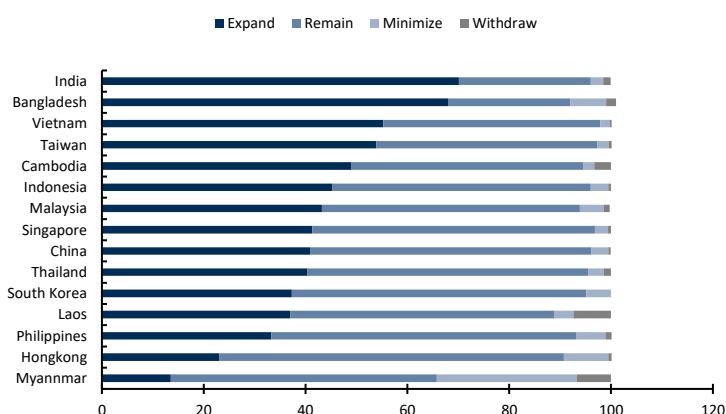
Source: Bloomberg, KB Securities Vietnam

Table 5. Asia – Survey on business attractiveness &amp; conditions in 2022 (%)

		Rankings of ASEAN countries according to the survey						
No.	Contents	1st	2nd	3rd	4th	5th	6th	7th
1	Marketable/growth potential	Indonesia 81.7	Vietnam 69.3	Myanmar 54.8	Cambodia 53.1	Thailand 50.5	Philippines 46.3	Laos 29.2
2	Stable political and social situation	Singapore 95.2	Laos 62.5	Vietnam 61.4	Cambodia 42	Malaysia 40.2	Thailand 22.1	Philippines 17.1
3	Low labor cost	Laos 79.2	Philippines 74.4	Myanmar 67.7	Vietnam 56.9	Cambodia 53.1	Malaysia 37.3	Indonesia 35.5
4	Ideal living environment for expats	Singapore 64.9	Malaysia 63.9	Thailand 55.3	Vietnam 26.8	Cambodia 17.3	Philippines 13.4	Indonesia 10.7
5	Easily recruit employees (unskilled workers)	Philippines 48.8	Indonesia 28.8	Thailand 24.1	Vietnam 23.9	Myanmar 21.9	Laos 20.8	Malaysia 17.8
6	High quality employees (unskilled workers)	Philippines 24.4	Vietnam 19.5	Singapore 18.8	Malaysia 10.1	Myanmar 9.7	Thailand 9.3	Indonesia 4.6
7	Abundant land/office area, cheap land rent	Malaysia 33.1	Vietnam 16	Cambodia 14.8	Thailand 14.6	Philippines 12.2	Indonesia 8.6	Myanmar 5.2
8	Concentration of large trading groups (purchasing partners)	Thailand 55.0	Malaysia 28.4	Indonesia 26.9	Singapore 20.9	Vietnam 15.7	Philippines 7.3	Myanmar 3.9
9	High quality staff (experts, technicians)	Singapore 20.4	Vietnam 15.4	Philippines 14.6	Malaysia 10.1	Thailand 8.2	Myanmar 6.5	Cambodia 3.7
10	Fewer barriers to language communication	Malaysia 80.5	Philippines 75.6	Singapore 67	Cambodia 30.9	Myanmar 18.1	Thailand 15.2	Vietnam 13.6

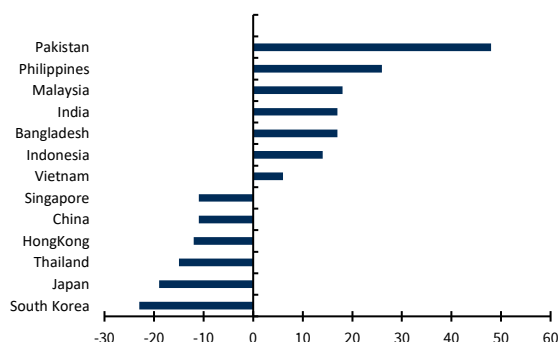
Source: JETRO, KB Securities Vietnam

Fig 19. Asia – Survey on business orientation in 2022–2023



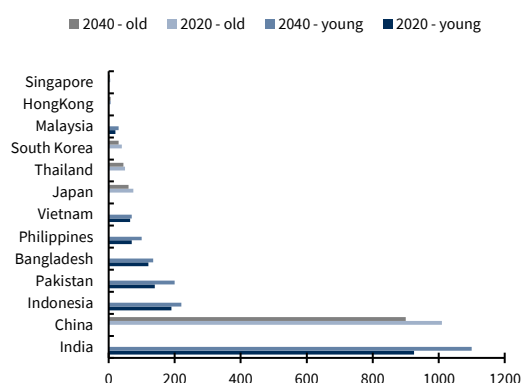
Source: JETRO, KB Securities Vietnam

Fig 20. Asia – Forecast changes in working age in 2020–2040 (%)



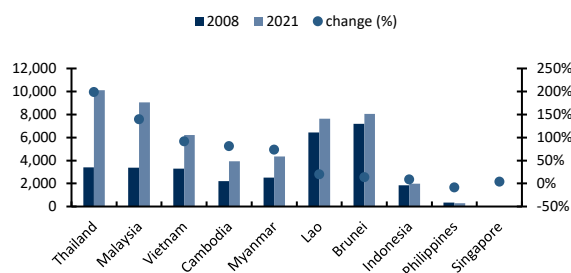
Source: Natixis, United Nations, KB Securities Vietnam

Fig 21. Asia – Population in working age in 2020–2040 (million people)



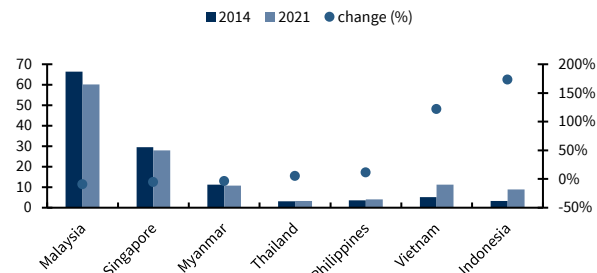
Source: Natixis, United Nations, KB Securities Vietnam

Fig 22. ASEAN – Total road length (km/million people)



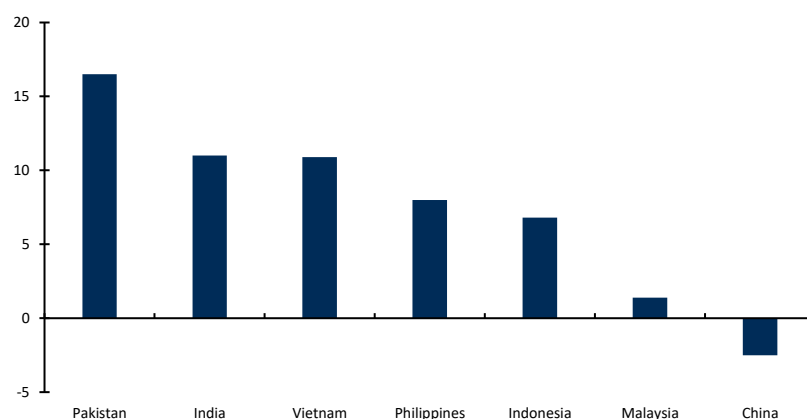
Source: ASEANS Stats, KB Securities Vietnam

Fig 23. Total expressway length (km/million people)



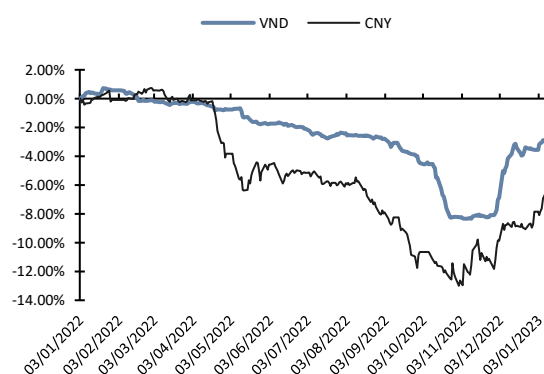
Source: ASEANS Stats, KB Securities Vietnam

Fig 24. Asian – FDI inflow speed in 2012-2020 (%)



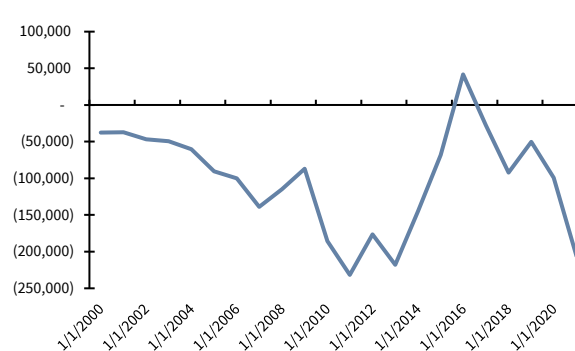
Source: CEIC, KB Securities Vietnam

Fig 25. Vietnam – VND depreciation against the USD (%)



Source: Bloomberg, KB Securities Vietnam

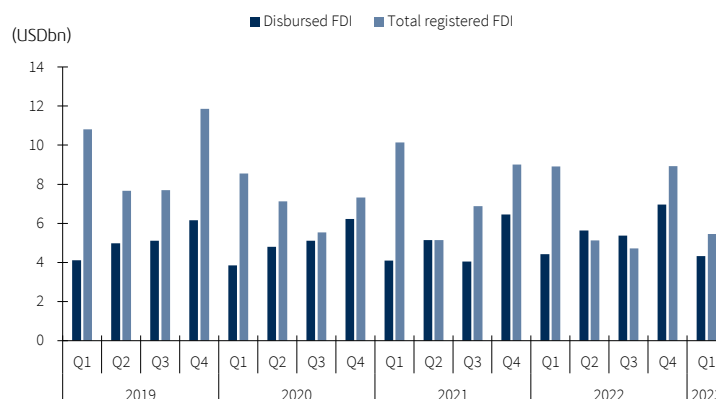
Fig 26. China – Net FDI (BOP, USDmn)



Source: IMF, Bloomberg, KB Securities Vietnam

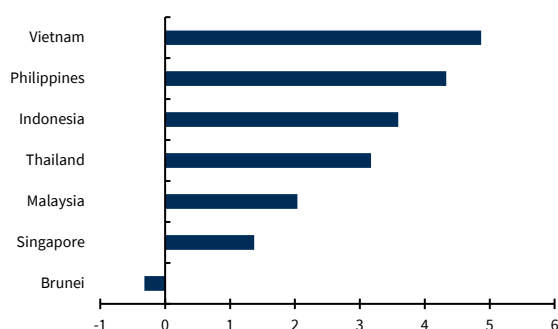


Fig 27. Vietnam – FDI over the years (USDmn)



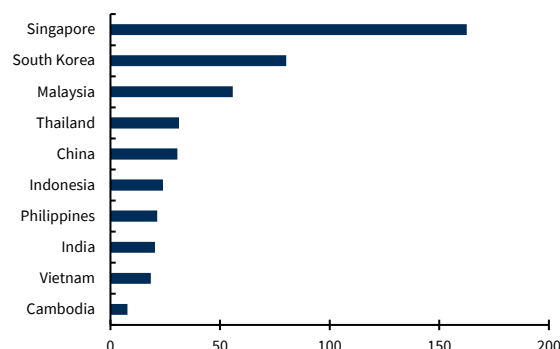
Source: General Statistics Office, KB Securities Vietnam

Fig 28. ASEAN – Average labor productivity growth rate from 2011 to 2019 (%/year)



Source: General Statistics Office, KB Securities Vietnam

Fig 29. Asia – Labor productivity in some countries in 2020 (PPP 2017, USD thousand)

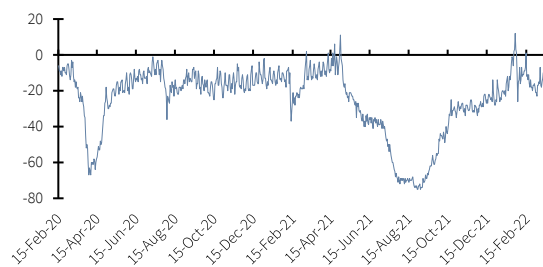


Source: General Statistics Office, KB Securities Vietnam

**Domestic consumption is stable (benefiting from China's opening up).**

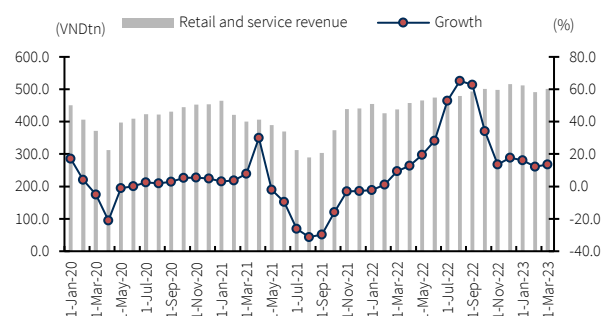
We also expect the restaurant service and tourism industries to continue to be vibrant. This sector also shows more positive signals thanks to: (i) Busier domestic and international tourism (Figure 33), the Google Mobility index obviously increased compared to the lows in 2021(Figure 30); (ii) a likely increase in the number of international visitors China to Vietnam when the country reopens after nearly three years of being restricted by Covid. In fact, despite opening tourism early, Vietnam's number of international tourists from Asia in the first 11 months of the year is only 1/7 of the number of visitors in 2019 (Table 6) without tourists from China (usually accounting for 30-40% of visitors from Asia).

Fig 30. Global – Mobility to retailing sector (%)



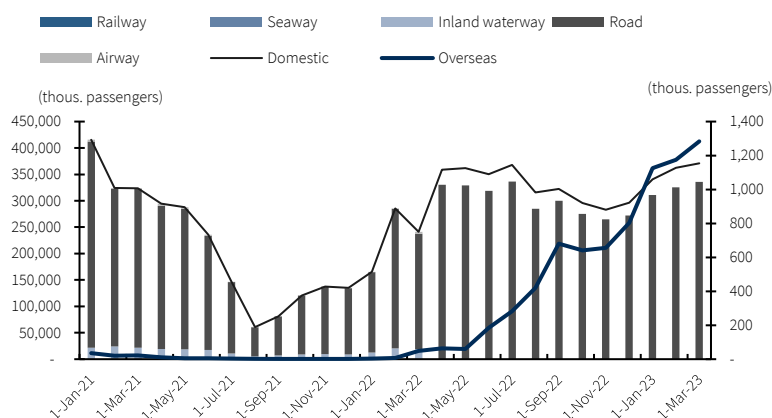
Source: Google, KB Securities Vietnam

Fig 31. Global – Total retail sales &amp; services (VNDtn)



Source: FlinPro, KB Securities Vietnam

Fig 32. Vietnam – Domestic &amp; international tourism in 2022 (thousand tourists)



Source: General Statistics Office, KB Securities Vietnam

Table 6. Vietnam – Asian and Chinese arrivals to Vietnam in 2019–2020

	Tourists from Asian countries	Tourists from China	Weight
2019	14,386.30	5,806.40	40%
2020	2,813.65	959.22	34%
2021	132.84	57.73	43%
2022	2,075.96	107.91	5%

Source: Bloomberg, KB Securities Vietnam

**Inflation and the risk of global economic recession are unpredictable factors that can hinder Vietnam's growth momentum**

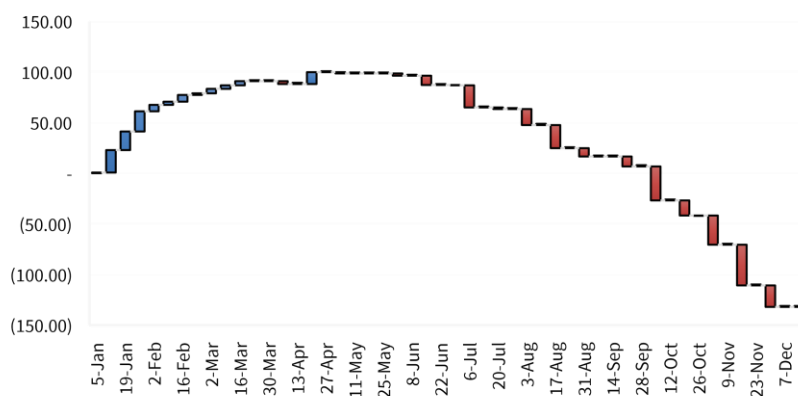
Inflation and the risk of global economic recession are still unpredictable factors that can hinder global and Vietnam economic growth momentum: (i) The conflict between Russia and Ukraine has not come to an end, causing the world supply of basic goods, agricultural products and energy to remain interrupted, increasing cost pressure. (ii) China's full reopening will push up oil and gas prices in particular and global raw materials in general, putting pressure on the prices of many other consumer goods and services and causing inflation to increase in the whole world, especially in the US. (iii) Central banks of major countries in the world are still on the roadmap to increase interest rates and tighten monetary policy to control inflation. (iv) Consumer demand in Vietnam's main trading partner countries, the US, the EU, and China, all tend to decline due to the risk of economic recession, so it can become a big challenge for Vietnam's export activities.

In addition, domestic inflation pressure and interest rates remaining at high levels that are difficult to reduce sharply and may cause difficulties to business operations.

In our base scenario given in the 2023 Strategy Report – inflation would cool down sustainably, the US economy falls into a mild recession in 4Q23. The Fed is forecast to have two rate hikes, raising interest rate by 25bps in February and March next year before maintaining high interest rates and possibly starting to decline by the end of 2023.

With rising inflationary pressure, the Fed has conducted a quantitative tightening process since June 2022. The rate of reduction is said to be the strongest in the past 10 years with a limit of USD95 billion/month

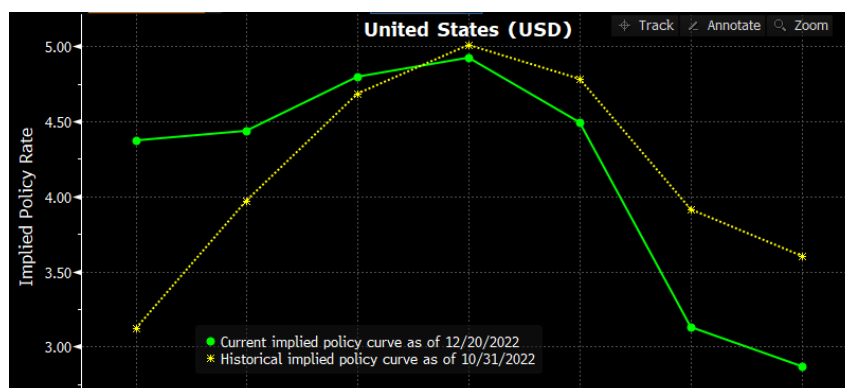
**Fig 33. US – Fed balance sheet changes in 2022 (USDbn)**



Source: Bloomberg, KB Securities Vietnam

Fig 34. US – Current implied yield curve vs the end of October

During the December meeting, the Fed made the decision to continue raising the federal interest rate by 50bps to 4.25–4.5%, while maintaining its stance on continuing to raise interest rates by 50bps in 1Q23 and keep the rate high until the end of next year



Source: Bloomberg, KB Securities Vietnam

## Exports are under larger pressure

In 2022, Vietnam's export turnover of goods reached USD371.85 billion (+10.6% YoY). Data from the General Department of Customs also showed that most traditional export items to major trading partners recorded high growth compared to the same period in 2021 (Figure 18). Drivers for Vietnam's export growth in 2023 include:

- With the signed FTAs gradually taking effect (CPTPP, EVFTA, UKFTA, and RCEP), domestic export enterprises are gradually seizing competitive advantages when benefiting from preferential tariffs.
- The recovery of the manufacturing sector after two years of being affected by the pandemic.
- The reopening of China will have a positive impact on a number of key products exported to China, including: cotton fiber, stone, cement, rubber, agriculture, forestry and fishery products, and crude oil (Figure 19).

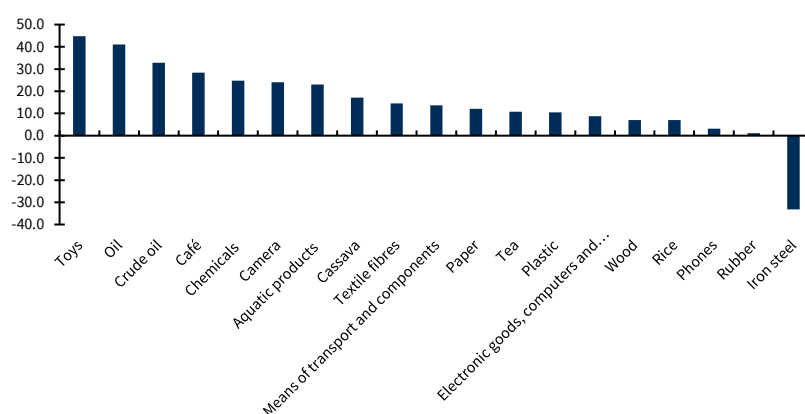
On the contrary, we assess that Vietnam's export turnover in the first six months of 2023 is still under a lot of pressure, coming from the following factors: (i) Exports of both domestic and FDI enterprises are slow when the number of new orders decreased sharply in the last two months of 2022 due to reduced demand in key markets (Figure 37 & 38). Therefore, manufacturers strongly cut production and cut the number of employees for the second consecutive month, the PMI in November and December hit 47.4 and 46.4 points respectively (Figure 40). In addition, the IIP of wood, textiles and electronics showed signs of a sharp decline to negative levels, reaching -15.3 YoY, -2.4 YoY and -1.9 YoY, respectively at the end of December 2022 (Figure 41). This shows that Vietnam's major export industries are facing a plunge in orders. (ii) The price increase of Vietnam's strong products such as agriculture, forestry and fisheries, rice, and steel continues to decline and remains at a low level compared to the peak set in 2021 (Figure 39). (iii) The appreciation of VND compared to the currencies of trading partners (thanks to the USD), makes Vietnam's export goods less competitive (Figure 12 – REER surging).

Table 7. Vietnam – Tax removing roadmap in EVFTA and CPTPP

	Products	Current tariff	Tariff cut schedule
EVFTA	Footwear	8%	0 – 8Y
	Textile	12%	0 – 6Y
	Fisheries	8% (catfish) & 20% (shrimp)	4Y (catfish); Immediate (shrimps)
	Coffee	0% (unroasted); 7.5% (roasted)	Immediate
	Timber	0% (interior); 7% (wooden planks)	6Y
CTTPP	Coffee		Immediate except for Mexico (5-10Y)
	Textile		0 – 4Y (Canada), Immediate (Japan), 16Y (Mexico)
	Timber		Immediate except for Japan (15Y)
	Fisheries		Immediate (Canada, Japan), 3Y(Mexico)
	Footwear		Immediate (Canada), 0-16Y (Japan)
RCEP	Remove tariffs on at least 64% of tariff lines immediately. After 20 years, Vietnam will have removed approximately 90% of tariff lines for partner countries which, in return, will have removed 90-92% of tariff lines for Vietnam. Other ASEAN members will remove almost all tariff lines for Vietnam.		

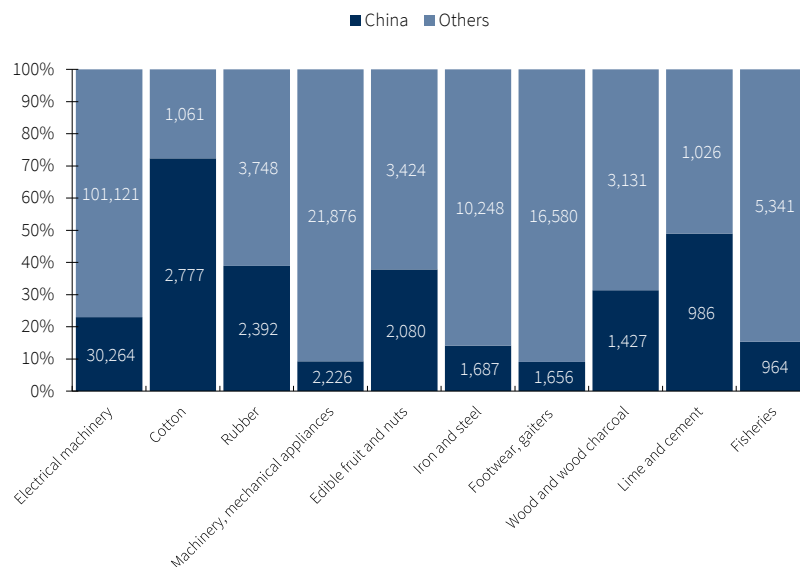
Source: KB Securities Vietnam

Fig 35. Vietnam – 2022 export growth by commodity (%)



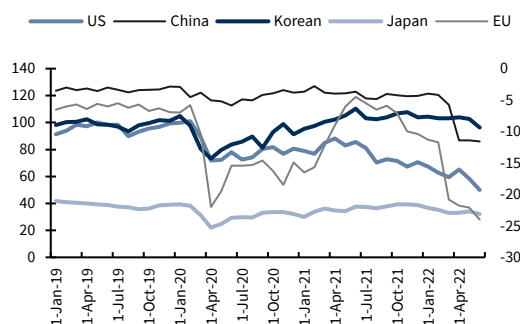
Source: General Statistics Office, KB Securities Vietnam

Fig 36. Vietnam – Top 10 export commodities (USDmn)



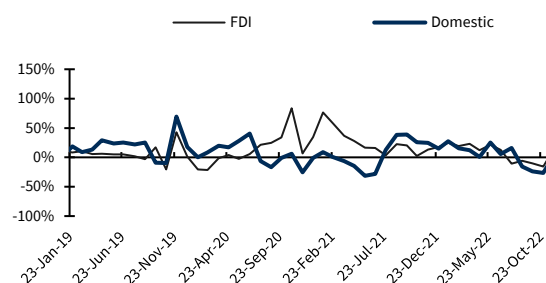
Source: ICT, KB Securities Vietnam

Fig 37. Global – Consumer confidence index of main trading partners (%)



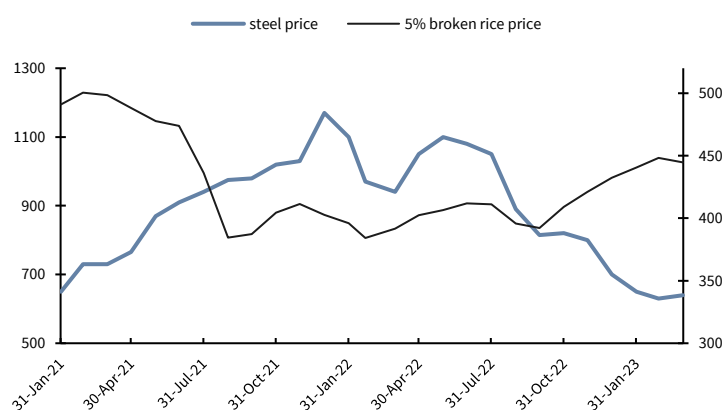
Source: Google, KB Securities Vietnam

Fig 38. Vietnam – Export growth by sector in 2017 – 2022 (% YoY)



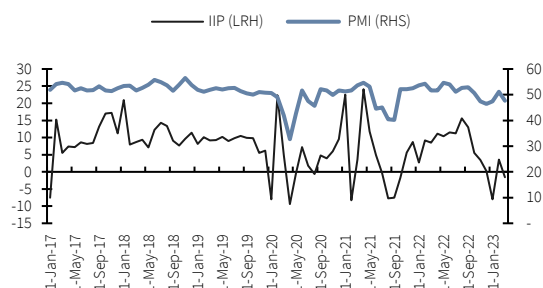
Source: Fiiipro, KB Securities Vietnam

Fig 39. Vietnam – Prices of steel &amp; rice for export



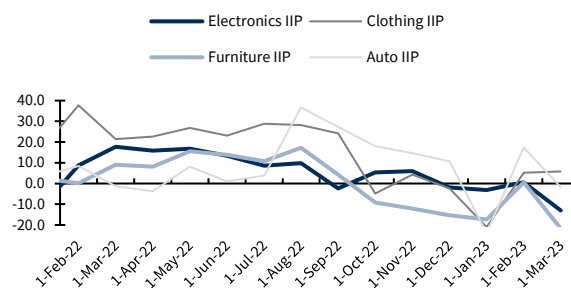
Source: VSA, World Bank, KB Securities Vietnam

Fig40. Vietnam – IIP &amp; PMI (% , point)



Source: Google, KB Securities Vietnam

Fig 41. Vietnam – IIP by sector (%)

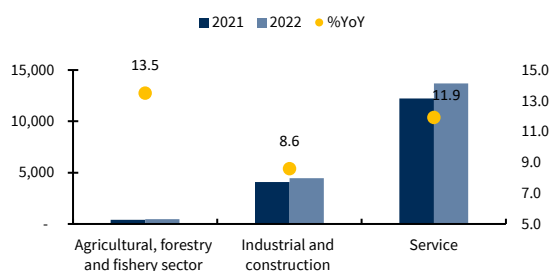


Source: Fiiipro, KB Securities Vietnam

**Domestic inflationary pressure and high interest rates can hardly reduce sharply, which can cause difficulties for businesses' operations**

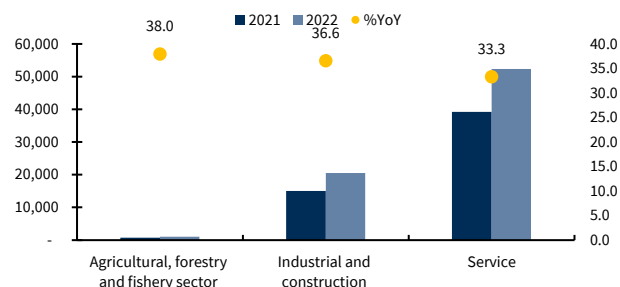
Domestic inflationary pressure and high interest rates are difficult to reduce sharply, which can cause difficulties for businesses' operations. In general, in 2022, there were 73.8 thousand enterprises temporarily suspending business (up 34.3% YoY) and 18.6 thousand enterprises completing dissolution procedures (up 11.2% YoY).

Fig 42. Vietnam – Enterprises with completed dissolution procedures (unit)



Source: General Statistics Office, KB Securities Vietnam

Fig 43. Vietnam – Enterprises temporarily suspending business (unit)



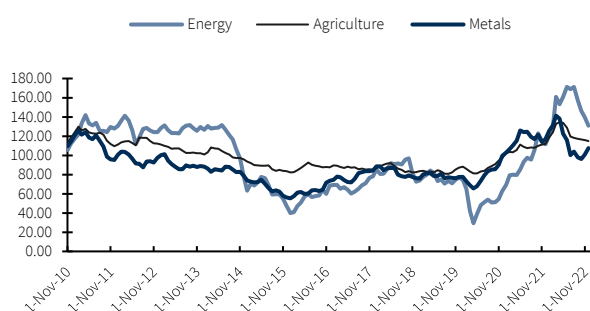
Source: General Statistics Office, KB Securities Vietnam

## 2. 2023F CPI

Although there are risk factors causing inflationary pressure to increase in 2023, we expect Vietnam's CPI to still be well controlled around 4–4.5% for the whole year 2023: (i) Live-weight hog prices increased slightly to around VND60,000 – 65,000 thanks to stable supply to meet domestic consumer demand. (ii) Prices of construction materials cool down. (iii) Unlike most other economies, Vietnam does not have inflationary pressures stemming from loose fiscal and monetary policies accumulated during the two years of COVID.

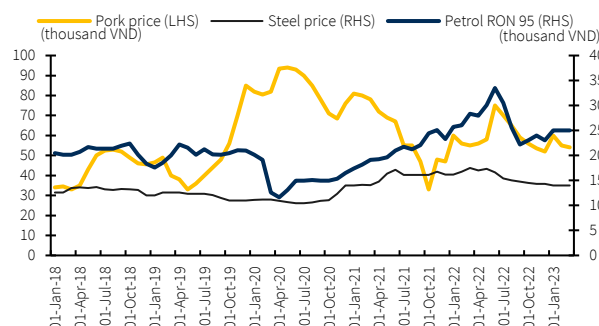
We believe that the risk of increasing inflationary pressure in 2023 will come from: (i) Gasoline prices increase again in line with world gasoline prices due to increased consumer demand when China reopens its economy. (ii) The Government implements a roadmap to increase electricity prices after three years of flat prices. (iii) Vietnam depends heavily on imported raw materials, so the sharp depreciation of VND in September and October 2022 will create great inflationary pressure from 1Q23.

Fig 44. Global – Commodity prices (USD)



Source: World Bank, KB Securities Vietnam

Fig 45. Vietnam – Domestic commodity prices (VND)



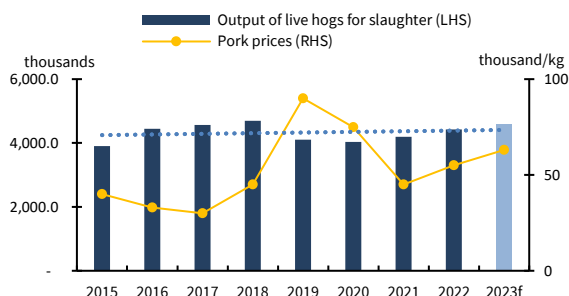
Source: OPEC, KB Securities Vietnam

### Live-weight hog prices modestly gained around VND60,000 – 65,000 thanks to stable supply

We forecast that pork prices may increase to VND60,000 – 65,000/kg when demand for restaurants, eateries, and tourist areas recovers compared to the period 2019 – 2021. However, the increase will not be too large as the domestic pork supply is recovering as the African swine fever is gradually controlled (Figure 46 and 47), and pork prices have increased although still at a low level. Specifically, according to the GSO, it is estimated that by the end of December 2022, the total number of pigs in the country would gain 11.4% YoY and live-weight hog production has reached 4,425 thousand tons (up 5.9% YoY). The Department of Livestock Production set a target for 2023 that the growth rate of production value will reach 3.5 – 4% YoY. Therefore, pork prices are unlikely to reach the peak in 2019 – 2020 thanks to the Government's prioritizing increasing domestic supply, combining many disease control solutions, and drastic anti-speculation and manipulation policies to ensure the rights of farmers and consumers.

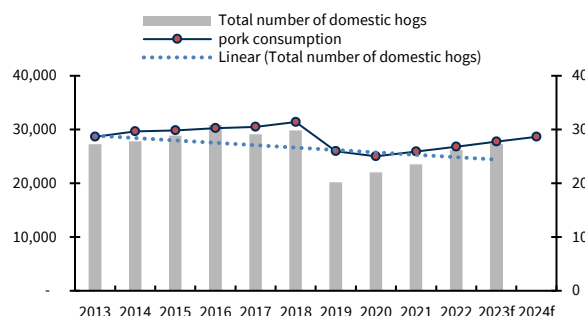


**Fig 46. Vietnam – Hog output & hog prices in 2015–2022**  
(thousand tons, VND thousand/kg)



Source: Vietnam Livestock Association, KB Securities Vietnam

**Fig 47. Vietnam – Total hogs (excluding weening hogs) & pork consumption**  
(thousand hogs, kg per capita)

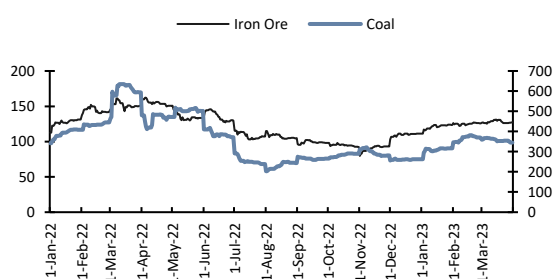


Source: OCED, General Statistics Office, KB Securities Vietnam

### Construction material prices cool down

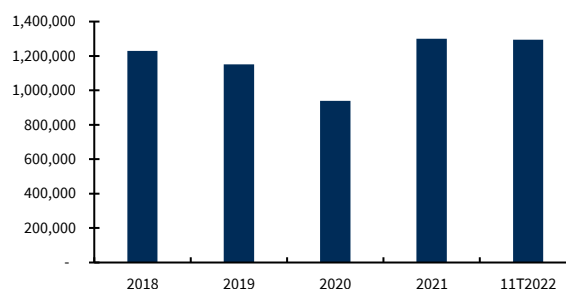
We expect construction material prices to move sideways or slightly decrease thanks to: (i) Lower steel production input material prices, the steel industry is still in the downward cycle (Figure 48); (ii) many challenges to steel consumption demand in 2023 when the real estate market faces difficulties affecting the supply of new projects; and (iii) large inventories at steel enterprises (Figure 49), which will help slow down the rise of the CPI in the electricity, water, housing and construction materials.

**Fig 48. Vietnam – Steel input material prices (USD/ton)**



Source: Bloomberg, KB Securities Vietnam

**Fig 49. Vietnam – Steel inventories (ton)**

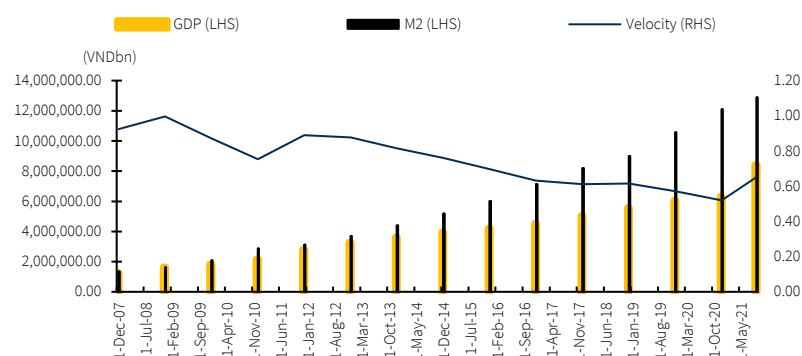


Source: General Statistics Office, KB Securities Vietnam

### Inflationary pressure from monetary policy is not yet a concern

We do not find inflationary pressure from monetary policy worrying. The SBV's proactive and flexible management to stabilize inflation, exchange rates, interest rates, and credit growth, in order of priority, will help not create too great pressure on inflation. In early 2022, the SBV's efforts to stabilize the exchange rate in the context of a sharp increase in DXY helped minimize the negative effects of imported inflation on the economy. In addition, the SBV's sale of a large amount of USD (estimated at about USD25 billion) caused the M2 growth rate in 2022 to be a record low of 4% YoY, which, when combined with a low cash turnover of about 0.7 cycles at the end of 2022 (in the US, M2 money turnover will reach 1.7 – 2.1 cycles/year), showing that monetary policy does not put pressure on inflation (Figure 50).

Fig 50. Vietnam – M2, nominal GDP and money turnover ratio



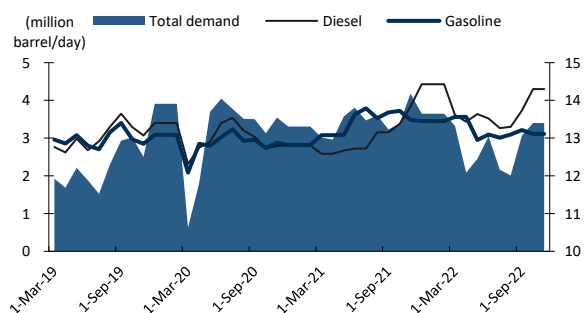
Source: State Bank of Vietnam, General Statistics Office, KB Securities Vietnam

### Gasoline prices increased again, following developments in world gasoline prices

In 2023, KBSV expects Brent oil prices to rebound in the short term and then maintain around USD90/barrel, based on: (i) Tensions between Russia and Ukraine have not come to an end. (ii) Oil supply is lacking as Western countries exert sanctions on imports and imposed price ceilings on oil from Russia. In addition, OPEC+ continues to maintain its output cut policy as the risk of global recession increases (Figure 51 & 52). (iii) Oil demand can recover strongly when China reopens. According to Bloomberg, if China fully opens in mid-2023, energy prices may surge by 20%. However, according to our observations, China has increased its oil imports from Russia and Saudi Arabia when Western countries recently implemented sanctions (Figure 53), which will help to meet the increasing demand, especially when China requires its state-owned energy import and export enterprises to stop reselling LNG to foreign customers.

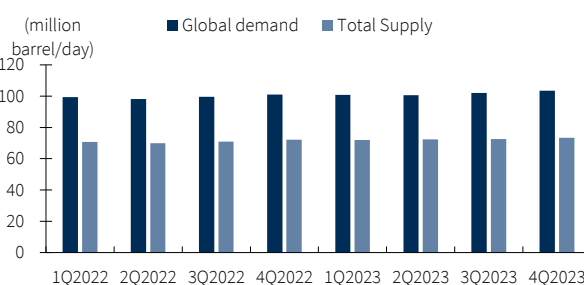
We expect that the Government will always prioritize stabilizing domestic gasoline prices by possibly considering reducing taxes on output selling prices if world gasoline prices continue to escalate.

Fig 51. China – Oil demand (million barrels/day)



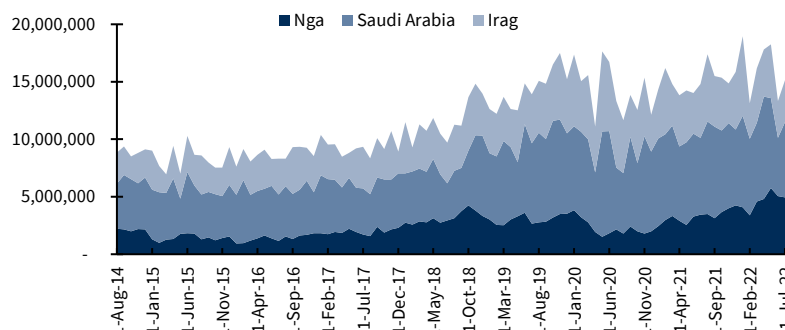
Source: Bloomberg, KB Securities Vietnam

Fig 52. Global – Oil demand &amp; output (million barrels/day)



Source: OPEC, KB Securities Vietnam

Fig 53. China – Crude oil imported from three main suppliers (USD thousand)

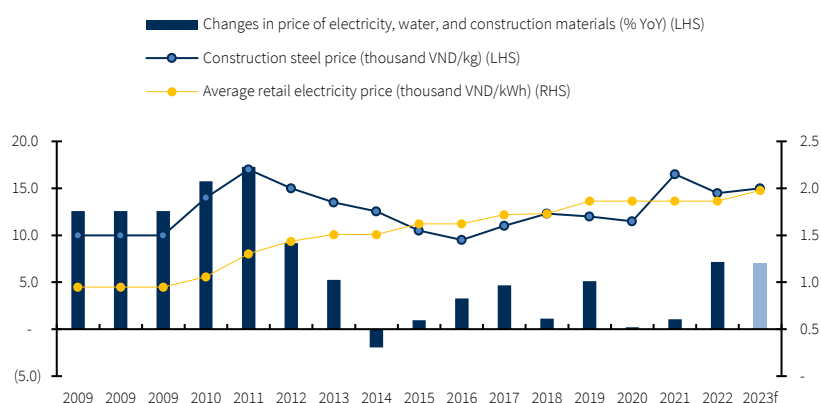


Source: OECD, KB Securities Vietnam

### Implementing a crazy price increase roadmap puts pressure on inflation

The Ministry of Industry and Trade is studying EVN's proposal to increase electricity prices to develop a reasonable increase roadmap in 2023 that will increase pressure on inflation (according to GSO, it is estimated that a 10% increase in electricity prices will impact CPI by 0.33 section points). In addition, many tax reduction policies will expire, causing commodity prices to increase.

Fig 54. Vietnam – Prices of electricity, construction steel &amp; CPI of electricity, water, and construction materials

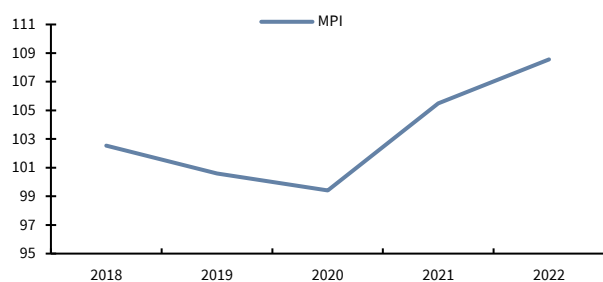


Source: General Statistics Office, Fiiipro, KB Securities Vietnam

### VND depreciation in September and October 2022 will create inflationary pressure from 1Q23

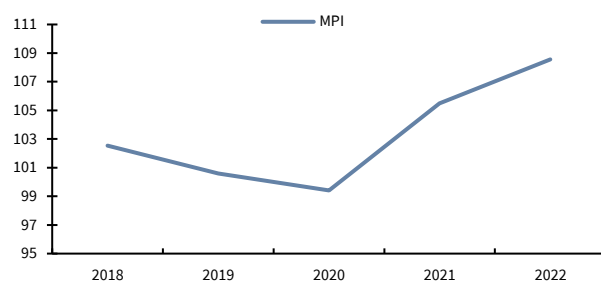
Vietnam depends heavily on importing raw materials for production, processing and manufacturing, so the sharp depreciation of VND in September and October 2022 will create great inflationary pressure from 1Q23. For the whole year 2022, the commodity import price index increased by 8.56% YoY (in 4Q alone it increased by 1.97% YoY), of which the price index of agricultural products and food groups increased by 9.74% YoY; fuel group increased by 35.51 YoY%; and processed and manufactured goods gained 7.41% YoY (Figure 55 & 56).

Fig 55. Vietnam – Proportion of import commodities



Source: General Statistics Office, KB Securities Vietnam

Fig 56. Vietnam – Import price index



Source: General Statistics Office, KB Securities Vietnam

Table 8. Vietnam – Average CPI forecast for 2023

No.	Groups	Weights (%)	+/- (% YoY)	Contribution to overall CPI (%)
1	Food and foodstuff			
	Grains	3.67	3	0.1
	Foodstuff	21.28	5	1.1
	Outdoor eating	8.61	7	0.6
2	Beverages and tobacco	2.73	3	0.1
3	Clothing and footwear	5.7	2	0.1
4	Housing, water, electricity, gas and other fuels	18.82	5	0.9
5	Furniture, household equipment and maintenance	6.74	1.5	0.1
6	Health	5.39	2	0.1
7	Transport	9.67	5	0.5
8	Communication	3.14	-0.4	(0.0)
9	Education	6.17	5	0.3
10	Entertainment	4.55	3	0.1
11	Miscellaneous goods and services	3.53	3	0.1
Total				4.1

Source: KB Securities Vietnam

### 3. 2023F interest rates

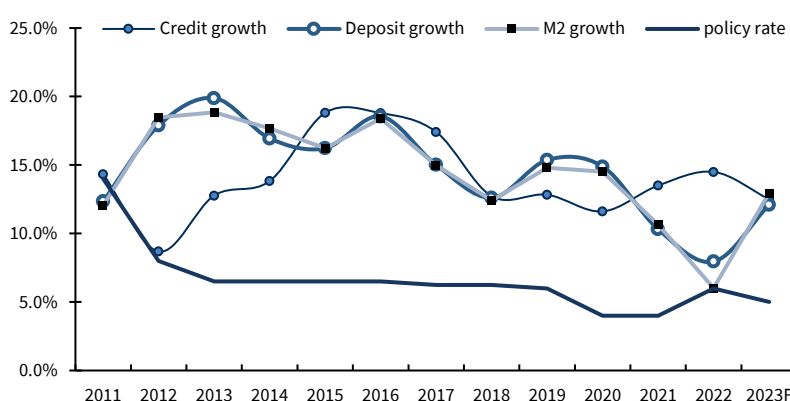
#### The SBV will have more room to operate policy in 2023

The SBV will have more room to loosen monetary policy in 2023, with the base scenario of average inflation being well controlled around 4–4.5% as stated above. The pressure from global inflation and the domestic exchange rate is forecast to be less tense than in 2022 as supply chain disruptions gradually improve and a decline in global consumption demand helps commodity prices cool down, while the Fed may soon end the interest rate hike cycle at the end of the first quarter.

In 2023, factors that are expected to contribute to improving money supply, helping to support VND liquidity in the system include: (i) The SBV buying USD again when foreign currency supply i from trade surplus, remittances and FDI, net foreign debt is stable, thereby helping to increase foreign exchange reserves and injecting an amount of VND into the banking system; (ii) expectation of public investment disbursement to reach over 80% of the year plan (presented in the GDP forecast); and (ii) high credit growth when the need for loans is always present even though interest rates are relatively high even compared to pre-pandemic levels, especially when the corporate bond market faces many difficulties after the Tan Hoang Minh and Van Thinh Phat cases, and the new Decree 65 issued at the end of September cause the banking system's capital channel to increase even more.

We forecast that credit growth will reach 14% YoY, deposits will increase by 12% and money supply will increase again by 13% YoY partly due to the low bases of 2022 (Figure 57).

Fig 57. Vietnam – M2, credit, deposits and interest rate growth (%)



Source: KB Securities Vietnam

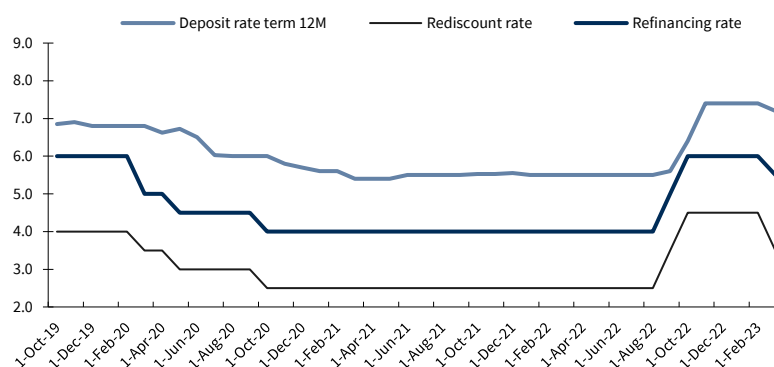
#### Deposit interest rates will cool down although they will still remain high at 9–10%

We expect deposit interest rates to cool down compared to the end of 4Q, although they still maintain at a high level of 9–10%, based on (i) Credit demand is good when the economy recovers after two years of Covid and (ii) deposit growth should reach over 12% YoY, which helps ease market liquidity pressure from the customer channel. Better money supply growth will create conditions for commercial banks to lower deposit interest rates.

## Lending interest rates decrease in line with deposit interest rates

Lending interest rates will tend to decrease in line with deposit interest rates but at a lower level of 0.4 – 0.7% as the Government continues to direct the banking system to try to stabilize lending interest rates and mobilize credit institutions to continue to innovate technology, increase operational efficiency, management, reduce costs, research to reduce interest rates in a number of subjects and fields serving production and business to support people and businesses to after the pandemic.

Fig 58. Vietnam – Interest rates (%)



Source: World Bank, KB Securities Vietnam

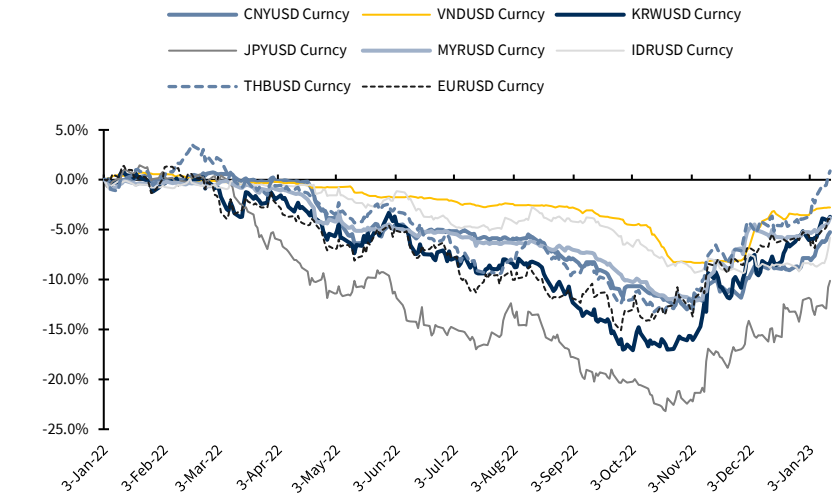
## 4. 2023F VND/USD exchange rate

### The USD/VND exchange rate is forecast to be more stable

We expect the USD/VND exchange rate to be more stable in 2023, and if any, only fluctuate within a narrow range of 2% as the foreign currency supply should be equivalent to the level achieved in 2022 when export operations are starting to come under more pressure, and FDI capital and remittances will still flow steadily to Vietnam.

Particularly in 1Q23, we assess that the domestic exchange rate will fluctuate slightly around 23,500 when: (i) DXY Index is forecast to move around 102 points and may recover slightly to 108 points before reversing as the Fed will end its interest rate hike roadmap at the end of 1Q23 (according to the base scenario in the Strategy report). (ii) The return of abundant foreign currency supply is a factor that helps the SBV soon return to USD buying operations, increasing foreign exchange reserves. According to our estimates, the SBV bought USD2 billion in the sessions on January 11, 2023 and January 13, 2023 when the domestic exchange rate returned to 23,450 – also the price to buy USD from the SBV. (iii) Newly registered FDI begins to recover from the end of November 2022, which boded well for the realized FDI cash flows. (iv) SBV branch in Ho Chi Minh City said that remittances will increase by about 10 – 20% YoY before Tet, helping to stabilize foreign currency supply.

Fig 59. Global – Currencies vs the USD

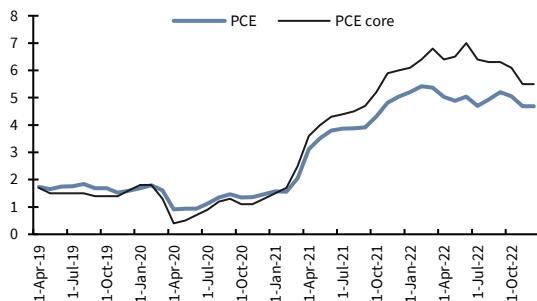


Source: FiinPro, KB Securities Vietnam

**We expect that the SBV will be able to buy USD10 – 12 billion USD, corresponding to the average level in the last 10 years**

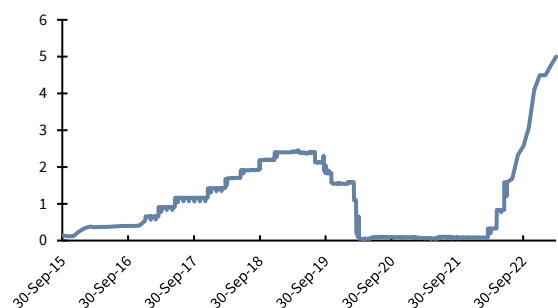
For the whole year 2023, we expect that the SBV will be able to buy USD10 – 12 billion, equivalent to the average level in the 10 years from 2012 – 2021, helping to increase FX reserves. (i) Foreign currency supply is good, coming from stable remittances and FDI disbursement, and modest trade surplus thanks to exports continuing to benefit from the roadmap to participate in FTAs but also somewhat pressured by the risk of economic recession (already presented in the GDP forecast), and net foreign debt. (ii) The demand for holding USD decreases significantly when VND interest rates are higher than USD, attracting depositors to convert savings to VND. (iii) DXY is weakening. Recession risk in the US and EU negatively impacts export activities (partly offset by FTAs and China economic reopening).

Fig 60. Global – PCE & core PCE in 199–2022 (%)



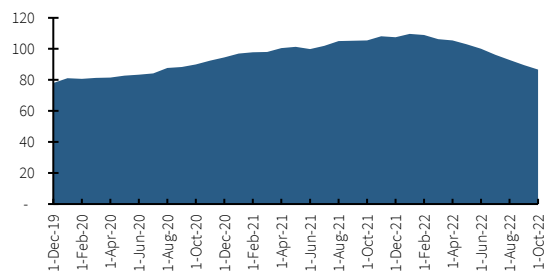
Source: Bloomberg, KB Securities Vietnam

Fig 61. US – Fed Funds Rate (%)



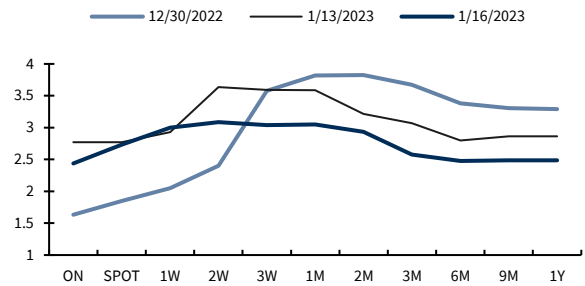
Source: KB Securities Vietnam

Fig 62. Vietnam – FX reserves (USDbn)



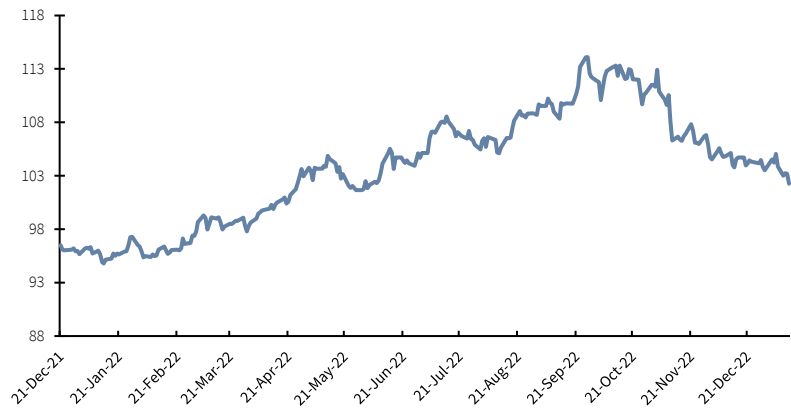
Source: Bloomberg, KB Securities Vietnam

Fig 63. Vietnam – FX swap curve



Source: VBMA, KB Securities Vietnam

Fig 64. US – DXY Index



Source: Bloomberg, KB Securities Vietnam



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## Investment ratings & definitions

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### Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

### Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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