

April 14, 2023

2Q23 Macro outlook

SBV continues to ease monetary policies

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

1) **GDP growth in 2023 should increase 5.4%** (revised down from 6% in the previous report). Factors that boost the growth include: (i) Accelerated public investment; (ii) disbursed FDI, which should be equal to 2022 levels thanks to stable exchange rate; (iii) positive domestic consumption, which should benefit from Chinese visitors; and (iv) the State Bank of Vietnam's (SBV) continuing to loosen monetary policies.

2) **Average CPI is estimated at 4.1%** for the whole year of 2023, which is under the limit of 4.0 – 4.5% set by the Government. Well-controlled CPI is attributable to (i) stable world petrol price; (ii) a modest increase in live-weight hog prices to around VND60,000 per kilogram thanks to stable domestic supply; (iii) lower prices of construction materials; (iv) Vietnam's not having inflationary pressures stemming from loosening fiscal and monetary policies, unlike most other economies; and (v) a decrease in commodity prices, helping the import price index (MPI) of raw materials for processing and manufacturing continue to decrease and not creating inflationary pressure in the coming quarters.

3) **M2 growth is expected to recover to 13% YoY with deposit growth at 12% and credit growth at 12–13% YoY.** The 12-month deposit rate is forecasted to remain around 7%, and the average interest rate is around 10%. The SBV may continue to lower policy rates by 50bps in 2Q23.

4) **The USD/VND exchange rate is projected to be stable at around VND23,500** when foreign currency supply is more stable.

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I. Vietnam 1Q23 macroeconomic overview

The economic growth obviously slowed down from 1Q23. The construction industry became weaker, shown by a negative growth over the same period. This reflects the difficulties in manufacturing activities when the number of orders decline amid unfavorable international macro environment.

In 2023, we expect that the positive signs of the macro economy will be maintained thanks to the Government's speeding up the disbursement of investment capital, stable domestic consumption (benefiting from China's reopening) and the SBV's easing monetary policy. Although exports, manufacturing and processing are still under pressure from the risk of a global economic recession, the consumption demand of the main trading partners has dropped sharply.

Macro stability and policies to support the economy will continue to be focused and maintained in the coming period. KBSV believes that inflation and exchange rates in 2023 will be under the Government's limits.

Table 1. Vietnam – 2023F macroeconomic indicators

| KBSV's forecasts | | | |
|-----------------------|---------|--------|------------|
| | Unit | 1Q23 | April 2023 |
| GDP growth | % YoY | 3.32 | 5.4 |
| Headline CPI | % YoY | 4.18 | 4.1 |
| Credit growth | % YTD | 2.00* | 14 |
| Refinance rate | %/annum | 5.5 | 5.0 |
| USD/VND exchange rate | VND | 23,500 | 23,500 |

Source: KB Securities Vietnam

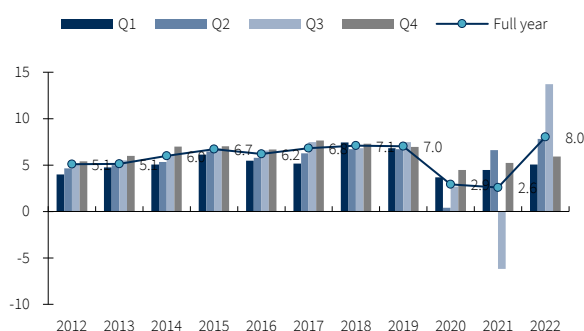
Note: Data as of March 20, 2023

II. GDP growth

1. Slow 1Q GDP growth

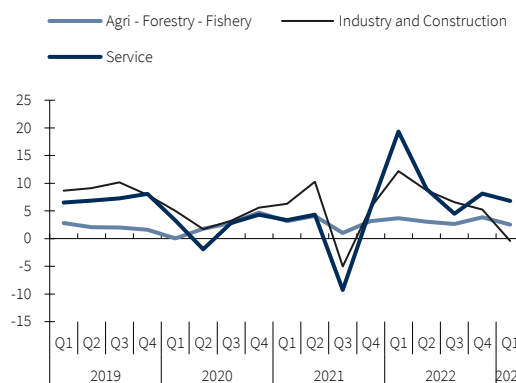
According to data from the General Statistics Office (GSO), GDP in the first quarter of 2023 is estimated to increase by 3.32% YoY, reaching 13-year lows (excluding 1Q22 when the economy was hit hard by the Covid-19 pandemic). This reflects the difficulties in manufacturing activities when the number of orders decline amid unfavorable international macro environment.

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



Source: General Statistics Office, KB Securities Vietnam

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



Source: General Statistics Office, KB Securities Vietnam

From the demand side, consumption is recovering while social investment is slowing down.

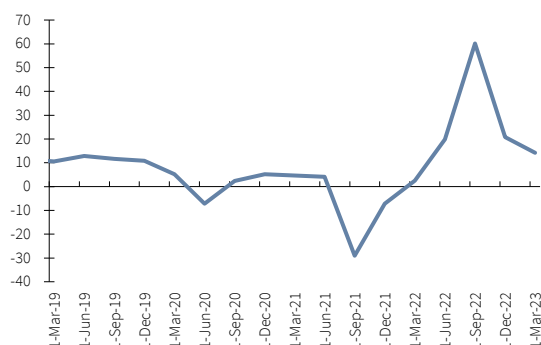
Consumption growth is on the rebound

1Q consumption growth gained 3.01% YoY, showing the recovery trend of the economy. Along with that, trade and service activities were active again with the total retail sales of goods and services in 1Q hit VND1,505 trillion, rising 13.9% YoY from the Covid-affected low base levels of last year. The retail sales of goods reached VND1,187 trillion, up 11.4% YoY.

Total social investment tends to slow down

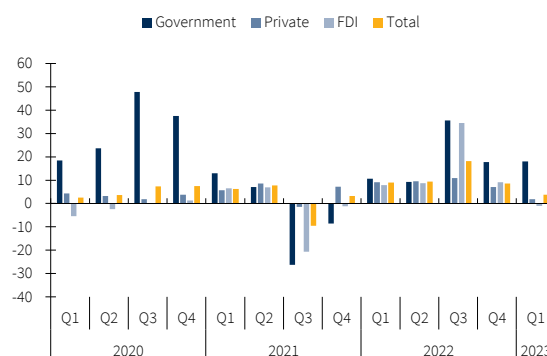
Total social investment capital in 1Q23 reached VND583.1 trillion, up 3.7% YoY. Of that, private sector added VND328.6 trillion (up 1.8% YoY), the public sector VND154 trillion (up 11.5 % YoY) and FDI reached VND101.5 trillion (down 1.1% YoY).

Fig 3. Vietnam – Total retail sales goods & services (%YoY)



Source: General Statistics Office, KB Securities Vietnam

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



Source: General Statistics Office, KB Securities Vietnam

From the supply side, the industrial and construction sector became weaker (Figure 2).

Industrial and construction are sagging

The industrial and construction sector in 1Q23 fell 0.4% YoY, the deepest 1Q decline in the past 13 years. To be more specific, the industrial sector dropped 0.82% YoY due to a sharp decline in the manufacturing industry (-0.37% YoY, making the general GDP growth decrease 0.1ppts). 1Q IIP fell 2.2% YoY, a number of key industries declined sharply, including automobiles (-17.8%), steel (-15.8%), motorcycles (-13.8%), smartphone components (-13.4%), and apparel (-10.2%) (Figure 6).

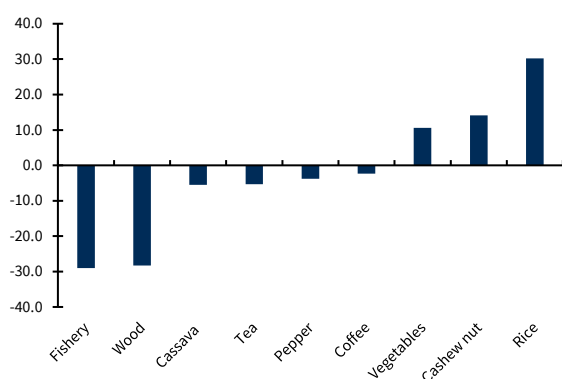
The service industry is gradually recovering

The service sector increased by 6.79% YoY as many service activities gradually recovered and grew strongly. Financial, banking and insurance activities gained 7.65% YoY; transportation and warehousing earned 6.85%; and the wholesale and retail of cars and motor vehicles rose 8.09% YoY. In particular, the hospitality and catering services strongly bounced back to 25.98% YoY after Vietnam reopened tourism activities.

The agriculture, forestry and fishery industry remained stable

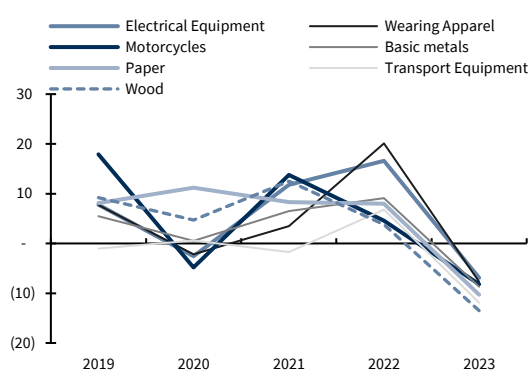
The agricultural, forestry and fishery industry was flat at 2.52% YoY, fully meeting domestic and export demand. Livestock production was stable but still face difficulties due to high prices of animal feed. Agro-forestry and fishery processing activities also showed a stable growth, but fishery exports plunged on a decrease in demand from the US and EU markets (Figure 5).

Fig 5. Vietnam – 1Q23 export growth of agro-forestry & fisheries (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 6. Vietnam – IIP of some main industries in 1Q (%)



Source: General Statistics Office, KB Securities Vietnam

2. 2023F GDP growth

2023F GDP should reach 5.4%

We lower our GDP growth forecast for 2023 to 5.4% (from 6% in KBSV's previous Macroeconomic outlook report). Factors supporting GDP growth include: 1) Motivation from public investment; 2) expectation that FDI disbursement is equivalent to 2022; 3) positive domestic consumption (benefiting from Chinese visitors); and 4) SBV's loosening monetary policy to boost the economic growth.

On the other hand, the risk of recession in the US and EU is said to be the factor that hinders GDP growth when export orders drop sharply, and the collapse of the domestic corporate bond market has negatively affected the production and business conditions of enterprises, especially those majoring in real estate and construction.

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

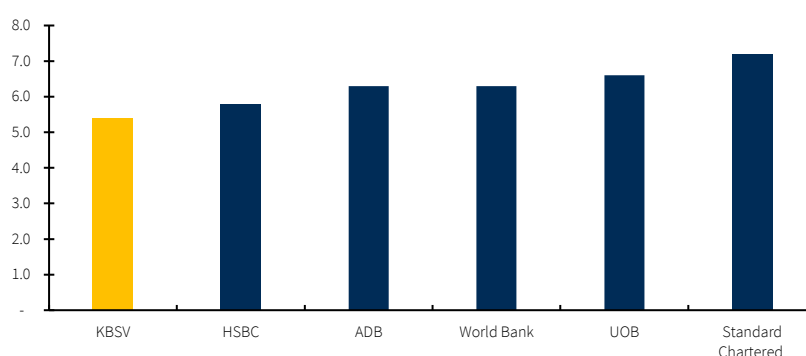
| Details | Expected size (VNDbn) |
|--|-----------------------|
| Disease prevention & health | 60,000 |
| Social security and employment support | 53,150 |
| Businesses, cooperatives, and business households support | 110,000 |
| Infrastructure development & development investment | 113,850 |
| Institutional,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

Source: The Government's statements, KB Securities Vietnam

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

| Criteria | Contents |
|--|--|
| Support interest rate | 2%/year |
| Scale | VND40,000 billion |
| Support period | 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 |
| Subjects | 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 |
| Conditions for interest rate support | 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. |
| Interest rate support limit for each commercial bank | 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 7. Vietnam – 2023F GDP growth (%)

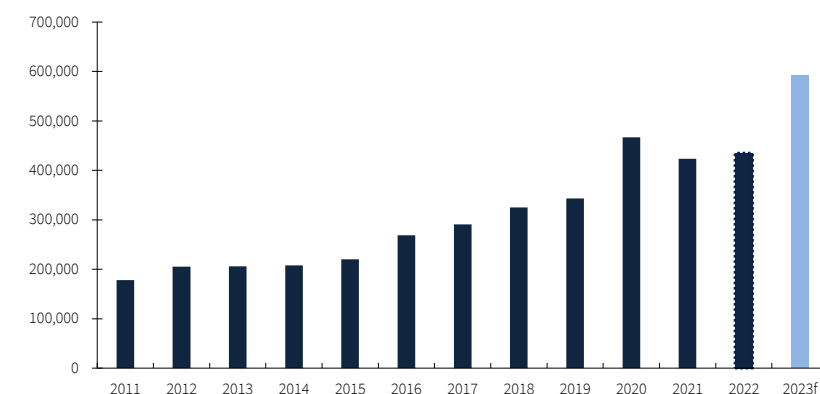
Source: HSBC, WB, ADB, UOB, Standard Chartered, KB Securities Vietnam

Public investment is expected to be the mainstay of the economy

Public investment is still considered a key factor to stimulate the economy as it has spillover effects on other sectors in the long term. The disbursement of public investment capital in 1Q23 reached VND73.2 trillion (equal to 9.7% of the plan assigned by the Government) and should be accelerated in the last two quarters of the year.

Public investment plan for 2023 includes a total capital of over VND726,000 billion, an increase of about 25% compared to the plan in 2022. The rate of disbursement of public investment is expected to improve to over 80% of the plan (compared to 75% in 2022), helping to clear the congested capital in the treasury and support the liquidity of the economy. The driving forces to promote public investment for 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 8. Vietnam – Disbursement of public capital (VNDbn)



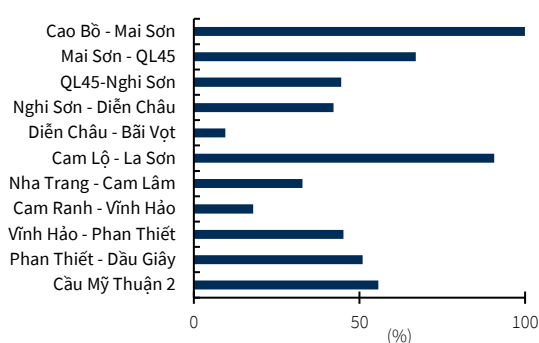
Source: General Statistics Office, Ministry of Finance, KB Securities Vietnam

Fig 9. Vietnam – Construction steel prices (VNDbn/kg)



Source: Fiinpro, KB Securities Vietnam

Fig 10. Vietnam – Progress of expressway projects – phase 1



Source: KB Securities Vietnam

Table 4. Vietnam – Key public investment projects

| Project | Total investment (VNDbn) | Disbursement from the State budget (VNDbn) | Expected disbursement during 2021-2025 (VNDbn) | Stimulus packages in 2022-2023 (VNDbn) |
|---|--------------------------|--|--|--|
| Expressway | 273,973 | 262,969 | 74,251 | 92,634 |
| 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 Huu, 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 | |

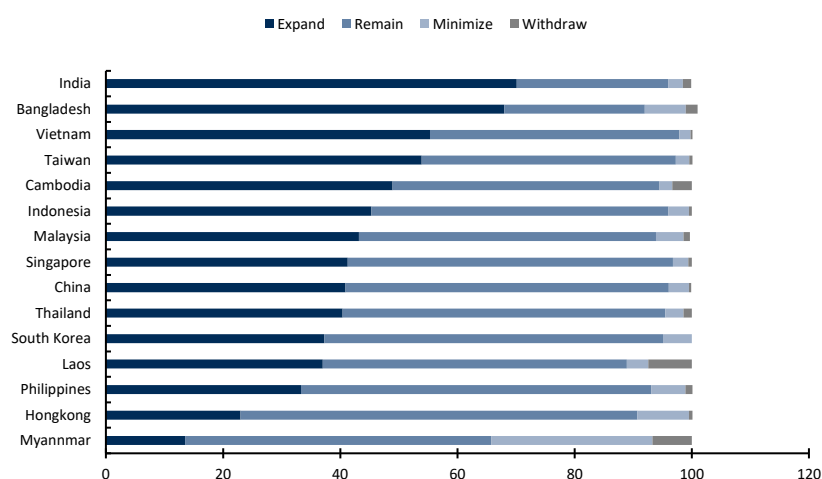
Source: KB Securities Vietnam

FDI is expected to continue to flow into Vietnam thanks to stable exchange rates

In the first quarter of 2023, newly registered FDI reached USD5,450 million (-38.8% YoY), sharply declining because: (1) The fear over increased risk of global recession makes foreign investors more cautious in registering new FDI. (2) The production and business activities of large FDI enterprises in Vietnam are also weakening when world demand plummets. (3) The application of a global minimum tax of 15% from 2024 may undermine Vietnam's preferential policies to attract FDI.

We expect Vietnam's disbursed FDI inflows to be equivalent to 2022 thanks to stable exchange rates. For 1Q alone, FDI disbursement reached USD4,320 million, only a slight decrease of 2.3% YoY.

Fig 11. Asia – Survey on business orientation in 2022–2023



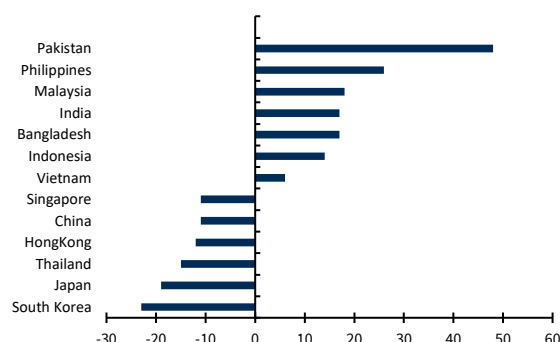
Source: JETRO, KB Securities Vietnam

Table 5. Asia – Survey on business attractiveness & 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 |

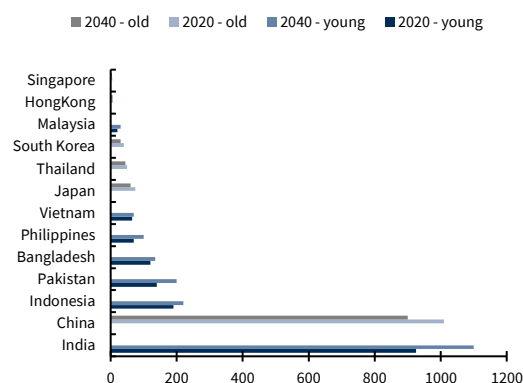
Source: JETRO, KB Securities Vietnam

Fig 12. Asia – Forecast changes in working age in 2020–2040 (%)



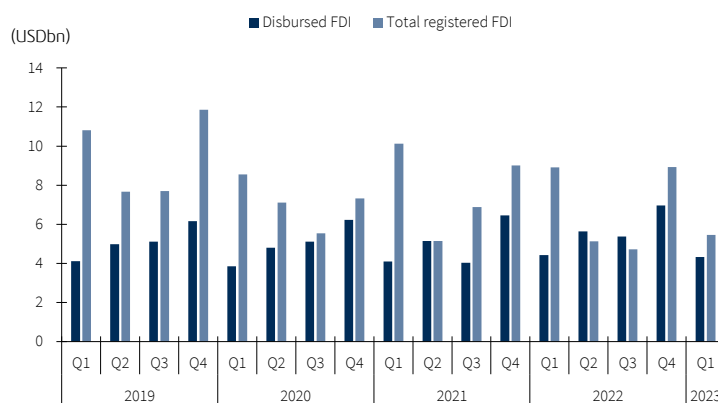
Source: Natixis, United Nations, KB Securities Vietnam

Fig 13. Asia – Population in working age in 2020–2040 (million people)



Source: Natixis, United Nations, KB Securities Vietnam

Fig 24. Vietnam – FDI in 2017–2023 (USDmn)



Source: Ministry of Planning & Investment, KB Securities Vietnam

Domestic consumption continues to be vibrant (benefiting from China's opening)

We also expect the tourism and restaurant service industries to continue to be active. This sector shows positive signs such as: (1) More vibrant domestic and international tourism (Figure 15 & 16) and (2) more visitors from China to Vietnam after nearly three years of being restricted by COVID-19 (Figure 17).

Fig 15. Vietnam – Total retail sales & sales growth (VNDtn, %)

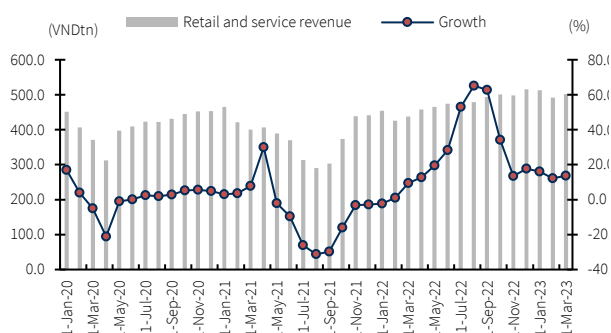
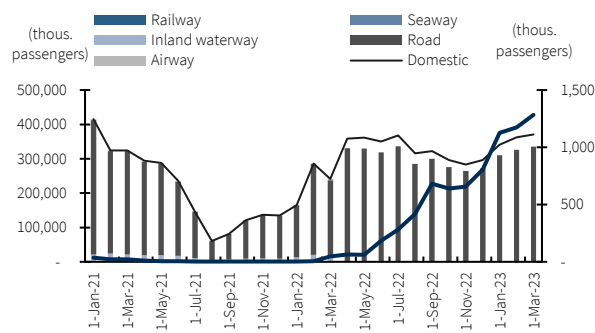


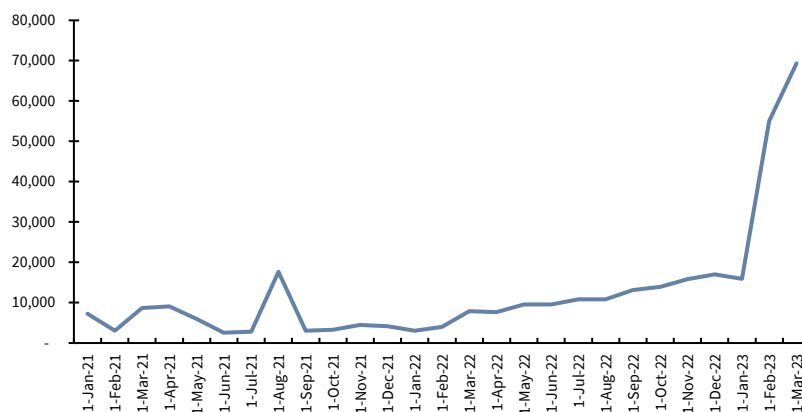
Fig 16. Vietnam – Tourist arrivals from domestic & foreign countries in 2021–2023 (thousand arrivals)



Source: General Statistics Office, KB Securities Vietnam

Source: Fiinpro, KB Securities Vietnam

Fig 37. Vietnam – Tourists from China (arrivals)

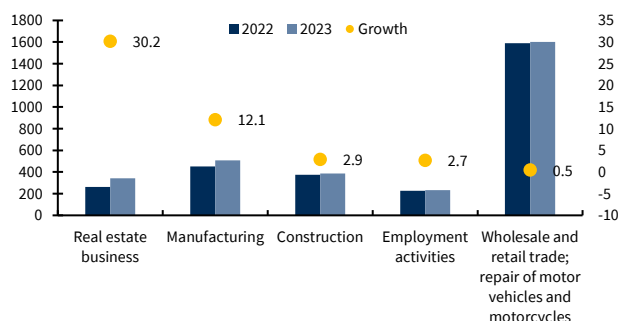


Source: Ministry of Planning & Investment, KB Securities Vietnam

Easing monetary policy creates a driving force to the economy

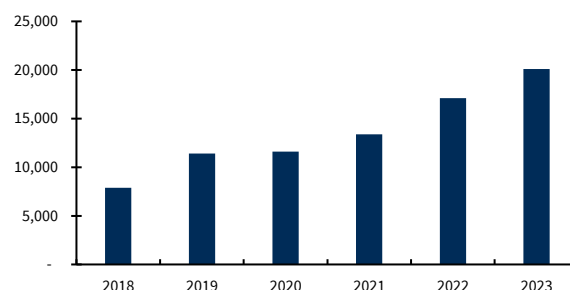
Tightening monetary policies in 2022 and the breakdown of the bond market have adversely affected production and business conditions of enterprises, especially real estate businesses. In 1Q23, an average of 20.1 thousand enterprises withdrew from the market every month (up 18% YoY). The real estate businesses had the highest increase in dissolution rate, reaching 30.2% YoY (Figure 18 & 19). In March 2023, the SBV announced twice to lower policy interest rates to stimulate credit demand from businesses and people, along with the purchase of USD to increase the SBV's foreign exchange reserves (+USD10 – 12 billion in 2023, adding VND240 trillion into the system). This helps create a favorable environment for the circulation of credit flows, which is expected to become a force to support the economy.

Fig 18. Vietnam – The number of enterprises that completed dissolution procedures (unit)



Source: General Statistics Office, KB Securities Vietnam

Fig 19. Vietnam – Average number of enterprises withdrawing from the market in one month in 1Q from 2018 to 2023 (unit)

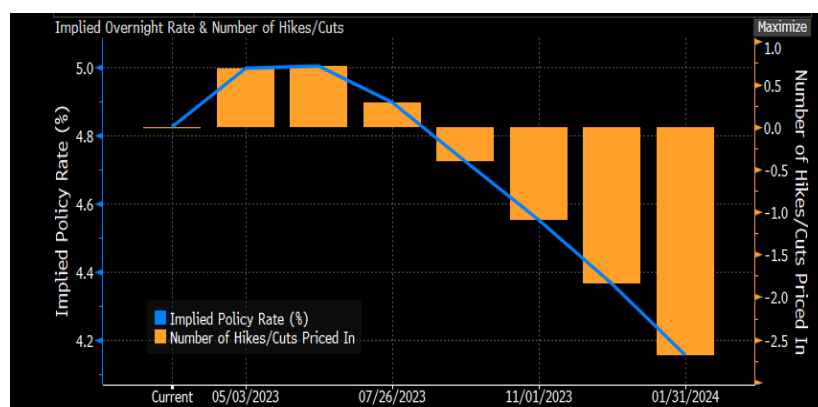


Source: General Statistics Office, KB Securities Vietnam

Inflation and risks of global economic recession are unpredictable factors hindering Vietnam economic growth

Unpredictable factors restraining global and Vietnam economic growth include: (1) US inflation continues its sustained cooling trend although it is unlikely to reach the 2% target, a mild recession may occur in 2H23 (in our base scenario given in the *2Q23 Stock market outlook report*). (2) Consumption demand in Vietnam's main trading partner countries, the US, EU, and China tends to decline due to the risk of economic recession, so it may become a big challenge for Vietnam's exports.

Fig 20. US – Current implied policy rate curve vs late March

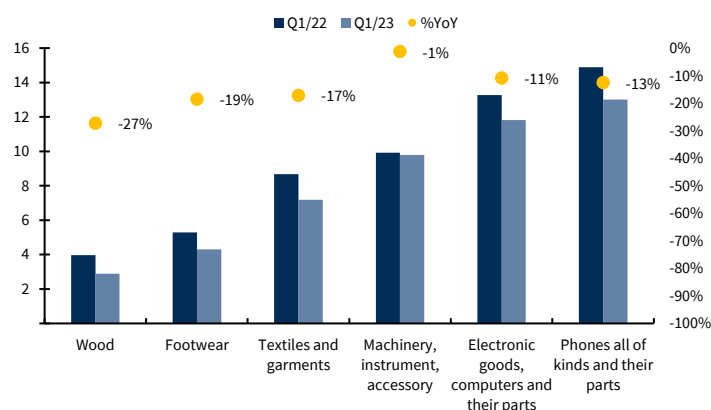


Source: Bloomberg, KB Securities Vietnam

Exports are under a large pressure

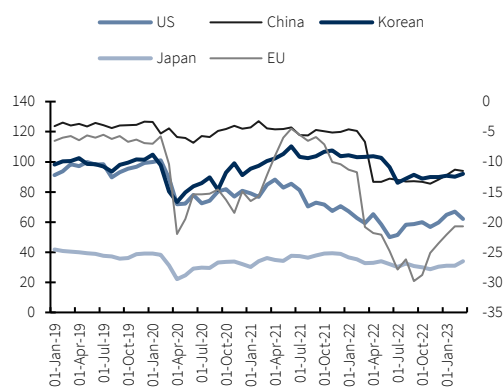
Vietnam's 1Q23 export turnover of goods reached USD79.17 billion (~11.9% YoY). Preliminary data from the GSO shows that the turnover of key export products of Vietnam has decreased (Figure 21). Vietnam's export turnover in 2Q is still under a lot of pressure from the following factors: (1) Exports of both domestic and FDI enterprises slowed down when the number of new orders fell sharply on lower demand in key markets (Figure 22 & 23). Therefore, manufacturers have drastically cut output and reduced the number of staff in five straight months. PMI at the end of March is still below the threshold of 50 points (Figure 25). (2) Prices of Vietnam's strong commodities such as agriculture, forestry and fishery, rice, and steel continued to decline and remained at a low level compared to the peaks in 2022 (Figure 24).

Fig 24. Vietnam – The turnover of main exports in 1Q22 & 1Q23 (USDbn)



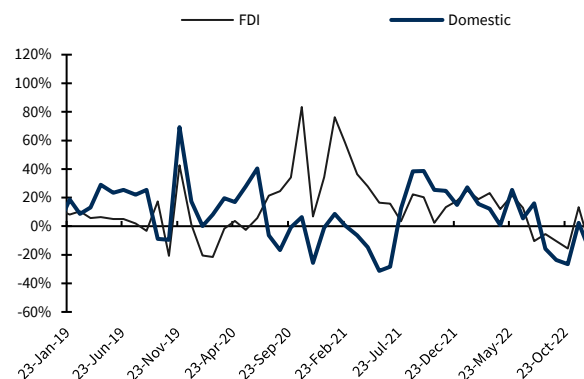
Source: General Statistics Office, KB Securities Vietnam

Fig 22. Main trading partners – Consumer confidence index (%)



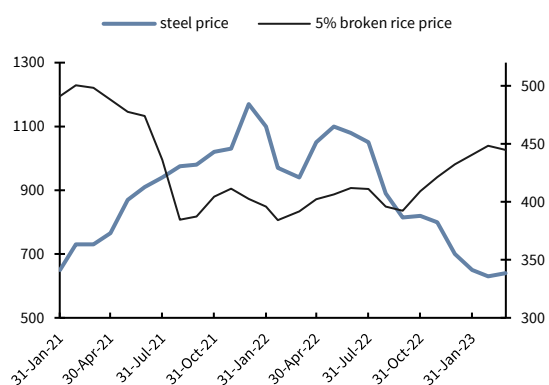
Source: Google, KB Securities Vietnam

Fig 23. Vietnam – Export growth by sector in 2020–2023 (%YoY)



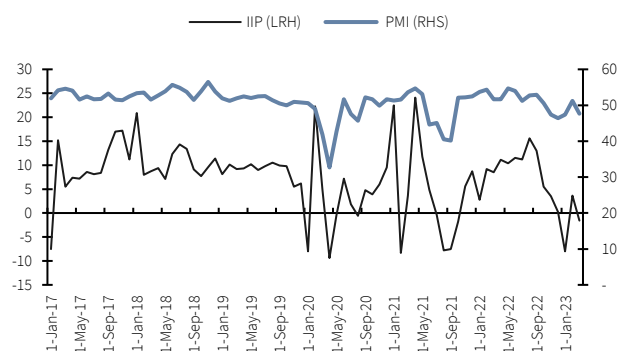
Source: Fiiipro, KB Securities Vietnam

Fig 24. Vietnam – Prices of steel & rice for export



Source: Vietnam Steel Association, World Bank, KB Securities Vietnam

Fig 25. Vietnam – IIP & PMI (% point)



Source: Fiiipro, KB Securities Vietnam

III. Inflation

Construction material prices, housing rents, and food prices are the most powerful influencers on CPI

1. 1Q inflation – Cooling from the end of the quarter

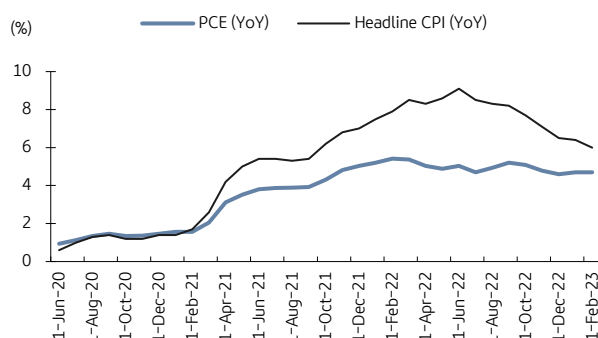
1Q average CPI rose 4.18% YoY, and the CPI dropped 0.23% in March alone, showing that inflationary pressure tends to cool down when supply chain related problems have been solved.

Core inflation tends to be similar to headline inflation, the average core CPI in 1Q increased by 5.0%YoY.

The main factors affecting CPI in 1Q23 include:

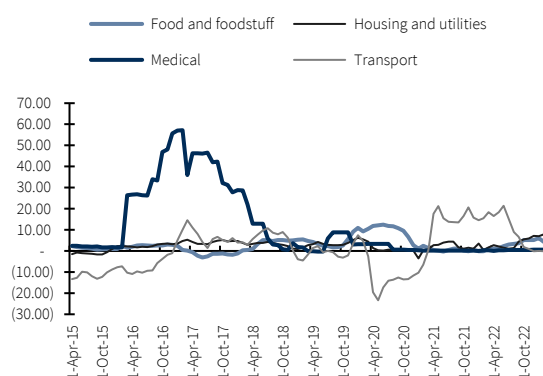
- 1) Prices of food items gained 4.4% YoY, causing the headline CPI to increase by 0.94ppts.
- 2) The prices of construction materials gained 7.17% YoY in line with the prices of cement, iron, steel and sand, making CPI gain 1.35ppts.
- 3) Domestic gasoline prices decreased 11.1% YoY, helping the headline CPI decline 0.03ppts.
- 4) Education fees increased by 10.13% YoY, causing the headline CPI to rise 0.52ppts at some provinces and centrally-run cities increased tuition fees for the 2022–2023 school year.

Fig 26. Vietnam – Headline & core CPI (%YoY)



Source: Vietnam Statistics Office, KB Securities Vietnam

Fig 27. Vietnam – The price movements of the main sectors (%YoY)



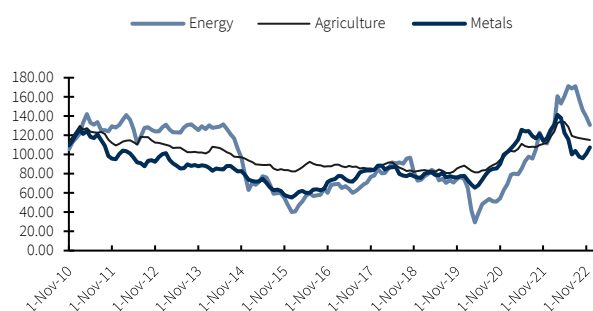
Source: Vietnam Statistics Office, KB Securities Vietnam

2. 2023F inflation

Despite the risks leading to higher inflationary pressure in 2023, we estimate Vietnam's inflation to reach 4.1%, still well controlled at under 4–4.5%, assuming: (1) Live-weight hog prices gain slightly to VND60,000 thanks to stable supply to meet domestic demand. (2) The prices of construction materials would decrease. (3) Pump prices are stable. (4) Unlike most other economies, Vietnam does not have inflationary pressures stemming from loose fiscal and monetary policies accumulated in the two years of severe COVID-19.

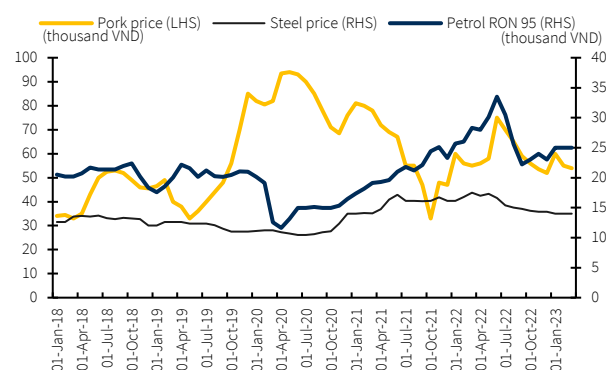
We believe that the risk of increasing inflationary pressure in 2023 will come from the Government implementing a roadmap to increase electricity prices after three years of flat prices despite the significant increase in fuel prices.

Fig 28. Global – Prices of necessary commodities (USD)



Source: World Bank, KB Securities Vietnam

Fig 29. Vietnam – The price of necessary commodities (VND thousand)

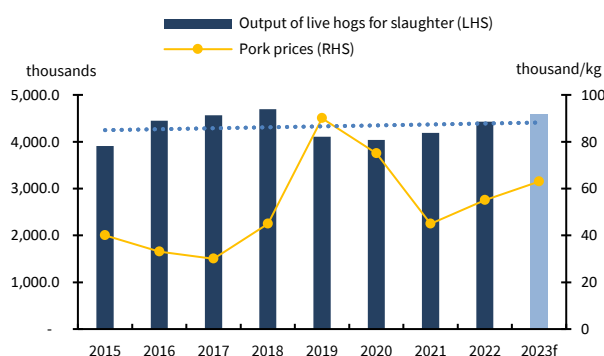


Source: OPEC, KB Securities Vietnam

Live-weight hog prices could modestly rise to VND60,000 thanks to stable domestic supply

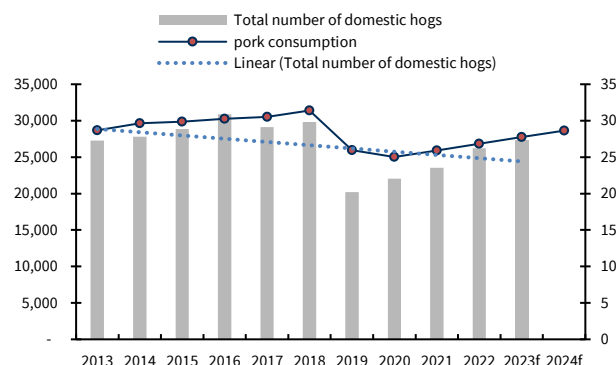
We forecast pork prices could increase to VND60,000/kg as the demand for food in restaurants, bars and resorts is strong. It is not likely that pork prices could manage a surge as the domestic supply is recovering when the African swine fever is controlled (Figure 30 & 31). The General Statistics Office estimated that by the end of March, the output of live hogs for slaughter may climb by 7.5% YoY to 1,192 thousand tons.

Fig 30. Vietnam – Output of live hogs for slaughter & pork prices in 2015–2022 (thousand, VND thousand/kg)



Source: Animal Husbandry Association of Vietnam, KB Securities Vietnam

Fig 31. Vietnam – Total number of domestic hogs (excluding piglets before weaning) & pork consumption (thousand heads, kg/capita/year)

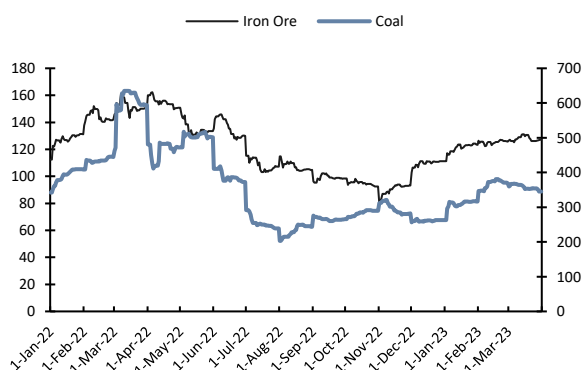


Source: OECD, General Statistics Office, KB Securities Vietnam

Construction material prices should decline

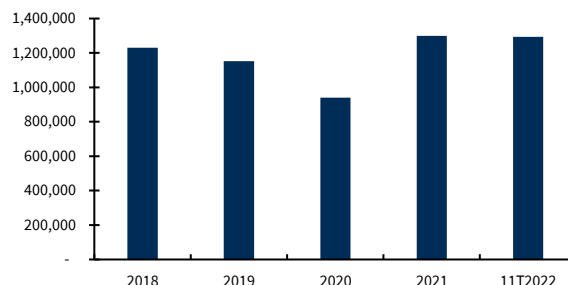
We expect construction material prices to decline thanks to (1) lower steel production input materials (Figure 32), (2) great challenges to steel demand in 2023, triggered by the real estate market's difficulties, and (3) large inventories at steel enterprises (Figure 33). This should be an important factor that can help slow down the rise of CPI in the group of electricity, water, housing and construction materials.

Fig 32. Global – Prices of input materials for steel production (USD/ton)



Source: Bloomberg, KB Securities Vietnam

Fig 33. Vietnam – Steel inventories (ton)

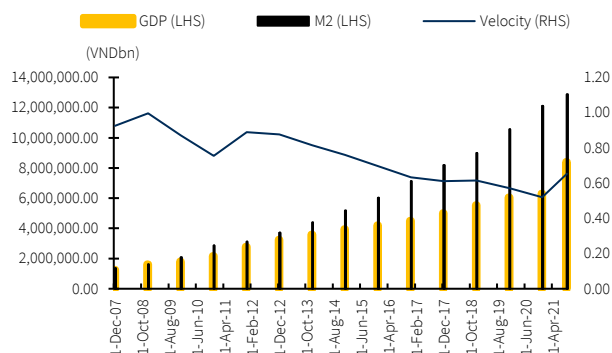


Source: General Statistics Office, KB Securities Vietnam

Inflationary pressures from monetary policy are not worrisome

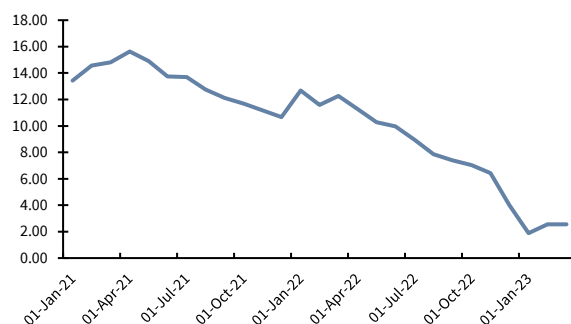
We do not think inflationary pressure from monetary policy is a worrying issue. As of March 20, 2023, M2 growth was only 2.5% YoY, the lowest level in the past 10 years. That, when combined with low cash flow (Figure 34 & 35) and the economy's less ability to absorb capital amid difficulties on the real estate market, should help credit growth gain by 12–13%, so M2 money supply growth is also unlikely to increase strongly this year.

Fig 34. Vietnam – M2 money, nominal GDP & cash turnover ratio



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

Fig 35. Vietnam – M2 growth (%YoY)

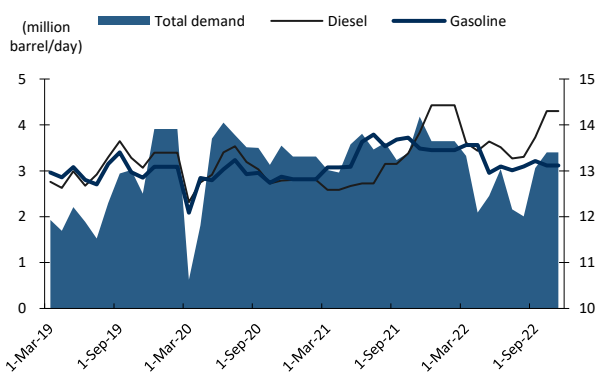


Source: General Statistics Office, KB Securities Vietnam

Brent oil price should be around USD90–100/barrel

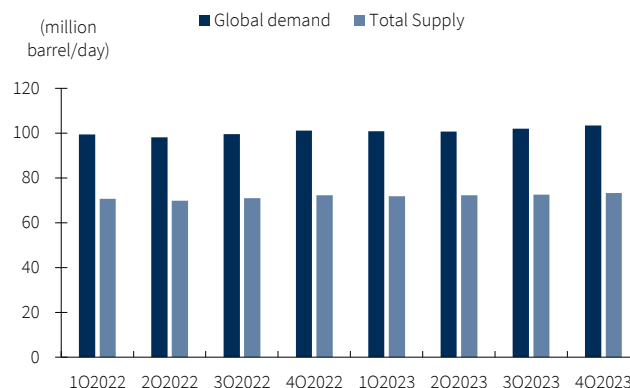
In 2023, we expect Brent oil price to stay around USD90–100/barrel because: (1) Oil supply continues to be tight as oil producing countries like Russia and OPEC reduce production; and (2) China's reopening will help increase the total world oil demand, combined with the Government's priority to stabilize gasoline prices, would help to stabilize domestic gasoline prices.

Fig 36. China – Oil demand (million barrels/day)



Source: Bloomberg, KB Securities Vietnam

Fig 37. Global – Oil demand & output (million barrels/day)



Source: OPEC, KB Securities Vietnam

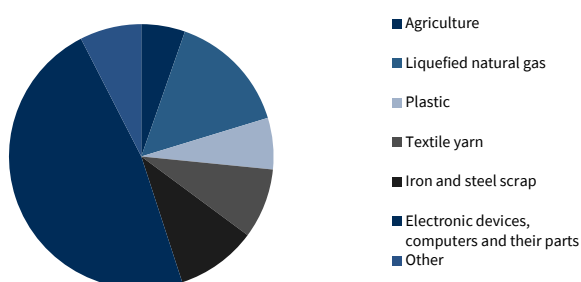
The roadmap to increase electricity prices may put pressure on inflation

The Ministry of Industry and Trade is studying EVN's proposal to raise electricity prices to build a reasonable roadmap in 2023, which will increase inflationary pressure (according to the estimates, if electricity prices gain 10%, CPI would increase 0.33pts). In addition, the expiry of many tax reduction policies may cause commodity prices to increase.

Inflation heavily depends on imported raw materials

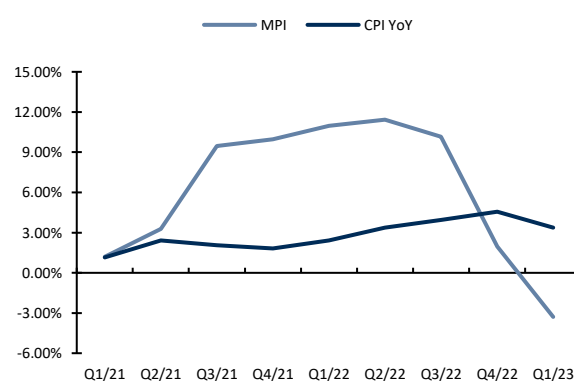
MPI of key commodity groups including agricultural crops, foodstuffs, fuels and raw materials for processing and manufacturing peaked in 3Q22 and are in a downward trend (Figure 41) thanks to the sharp drop in world commodity prices. This should not create more pressure on inflation in the coming quarters.

Fig 39. Vietnam – Import structure



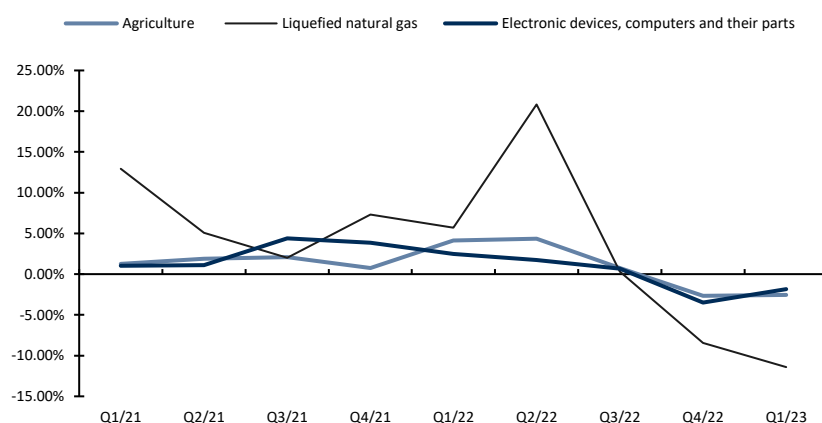
Source: Bloomberg, KB Securities Vietnam

Fig 40. Vietnam – MPI & CPI (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 45. Vietnam – MPI of commodity groups (%QoQ)



Source: General Statistics Office, KB Securities Vietnam

Table 6. Vietnam – 2023F average CPI

| 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

IV. Interest rates

1. 1Q interest rates – Interbank interest rates and deposit rates tend to decrease

The SBV has cut the policy rates twice in this year

On March 15 and March 31, 2023, the SBV issued official documents to reduce the policy rates, including refinancing rates, rediscount rates and deposit rate ceiling (Table 7).

Table 7. Vietnam – Policy interest rate reductions (%)

| | Dec 31, 2022 | Mar 15, 2023 | Apr 3, 2023 | 15/03/203 |
|---|--------------|--------------|-------------|-----------|
| Refinancing interest rate | 6.0% | 6.0% | 5.5% | |
| Re-discount rate | 4.5% | 3.5% | 3.5% | |
| Interest rates for overnight loans in interbank electronic payments and loans to cover capital shortage in clearing payments by the SBV for credit institutions | 7.0% | 6.0% | 6.0% | |
| Maximum short-term lending interest rate in VND of credit institutions for priority sectors | 5.5% | 5.0% | 4.5% | |
| Maximum short-term lending interest rate in VND of People's Credit Funds and Microfinance Institutions | 6.5% | 6.0% | 5.5% | |
| Maximum interest rate applicable to demand deposits and terms of less than one month | 1.0% | 1.0% | 0.5% | |
| Maximum interest rate applicable to deposits with term from one month to less than six months | 6.0% | 6.0% | 5.5% | |

Source: State Bank of Vietnam, KB Securities Vietnam

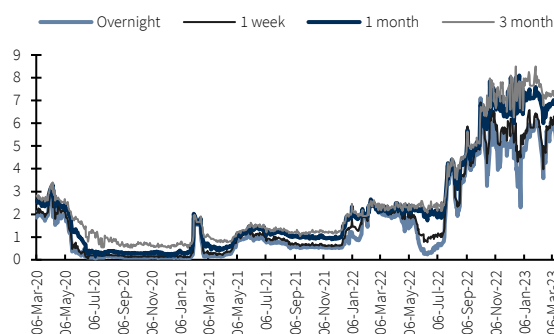
Overnight interbank interest rates tended to decrease sharply, showing abundant liquidity in the system

In the first quarter of 2023, liquidity in the system was abundant. Interbank interest rates dropped sharply in all terms, the interbank overnight interest rates remained at a low base at the end of the quarter (overnight, 1-week and 1-month interest rates respectively declined 355 bps, 366 bps and 347 bps compared to the end of 4Q22 (Figure 42).

Deposit rates tended to decrease

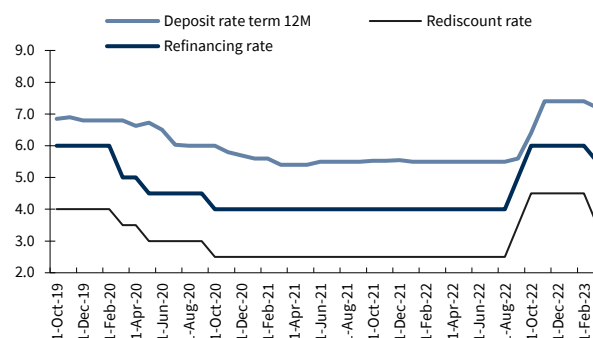
In 1Q, deposit rates tended to decrease in both short and long terms due to the abundant cash of banks, which was attributable to (1) the SBV's purchase of USD4 billion, increasing the FX reserves and injecting VND93 trillion into circulation and (2) low credit growth, reaching only 2% YTD due to a slowdown in loan demand during the Lunar New Year and businesses' prudently borrowing activities given less orders from customers. Besides, there are many enterprises that have not met the conditions to borrow capital. Commercial banks have simultaneously reduced deposit rates after the SBV lowered the policy rates and ceiling deposit rates. Small banks have a high reduction in deposit rates (ranging from 0.5% to 1.0%), while state-owned banks have narrower fluctuations (around 0.2%).

Fig 42. Vietnam – Interbank interest rates (%)



Source: Bloomberg, KB Securities Vietnam

Fig 43. Vietnam – Policy interest rates & deposit rates (%)



Source: Bloomberg, KB Securities Vietnam

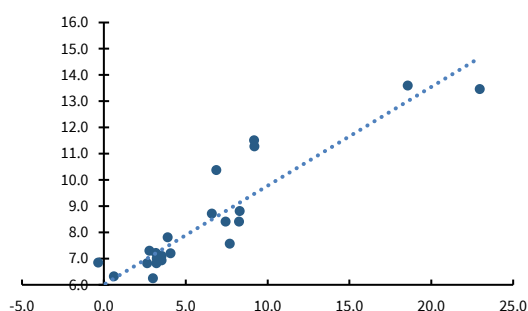
The 12-month deposit interest rate remained around 7%, and the average lending interest rate was around 10%. SBV may further lower policy interest rates by 50 bps in Q2/2023

2. 2023F interest rates

The SBV will have more room to loosen monetary policy in 2023. In the base scenario: (1) average inflation is well controlled at around 4–4.5%; (2) pressure from global inflation and the domestic exchange rate is forecasted to be less tense than in 2022; (3) the disruption of the supply chain is gradually improved, and global consumption demand is reduced to help cool down commodity prices; and (4) the Fed is forecasted to end the interest rate hikes from the end of 2Q23, the 12-month deposit rate level should remain around 7%, and the average lending interest rate should be around 10%.

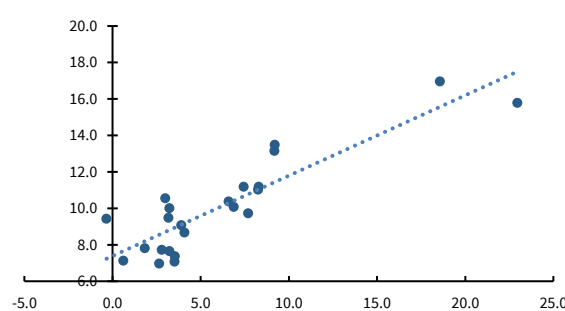
Observing the period 2000 – 2022, we find that if the average inflation fluctuates in the range of 4–5%, the 12-month average deposit interest rate and lending interest rate will remain around 7.0–8.0% and 9.5 –11.0% respectively (with the R square interpretation for both models reaching 80%) (Figure 44 & 45).

Fig 44. Global – The correlation between 12M deposit rates & average inflation in 2000–2022



Source: Asia Development Bank, World Bank, KB Securities Vietnam

Fig 45. Global – The correlation between 12M interest rates & average inflation in 2000–2022



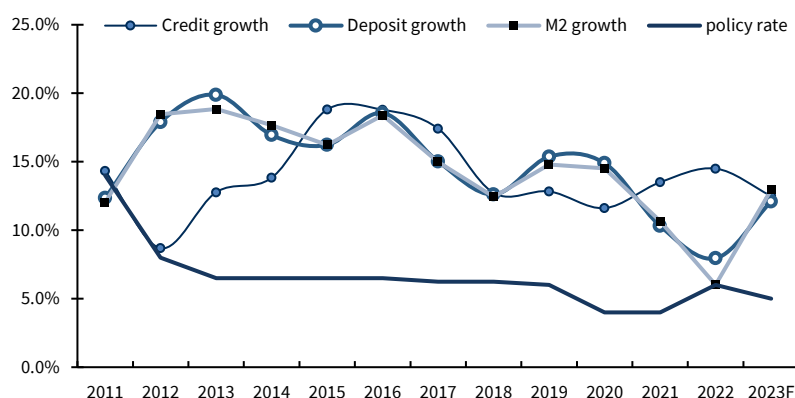
Source: Asia Development Bank, World Bank, KB Securities Vietnam

Inflation should be kept below 4.5%, which will help to stabilize interest rates

In 2023, factors are expected to help improve money supply and support VND flows in the system include: (1) SBV re-implements USD buying operation in the context of good foreign currency supply from trade surplus, remittances and FDI, and net foreign debt, thereby helping to increase FX reserves and adding VND into the banking system. (2) Expected disbursement of public investment will reach over 80% of the annual plan (mentioned in the GDP forecast section).

We lower our credit growth forecast to 12–13 %YoY (from 14% in the previous report) due to the economy's weaker capital absorption when the real estate market is still struggling. The deposit growth should be 12%, and the money supply may gain 13% YoY partly thanks to the low base of 2022 (Figure 46).

Fig 46. Vietnam – M2, credit, deposit rate & base interest rate growth (%)



Source: KB Securities Vietnam

V. Exchange rates

The interbank USD/VND exchange rates were stable at around 23,500

1. 1Q exchange rates – Interbank and unofficial exchange rates fluctuated in a narrow range

In 1Q23, the interbank exchange rates fluctuated in a range of +1%, peaking at 23,817 (+0.8% YTD) in February but falling at the end of the quarter and moving around 23,470 because: (1) The DXY index fell sharply due to the high risk of US recession after three banks in the US went bankrupt (Silicon Valley Bank, Silvergate Bank, and Signature Bank), which may cause the Fed to stop raising interest rates by the end of 2Q23. (2) Stable foreign currency supply, especially 1Q23, facilitate the SBV's purchasing USD4 billion to supplement FX reserves.

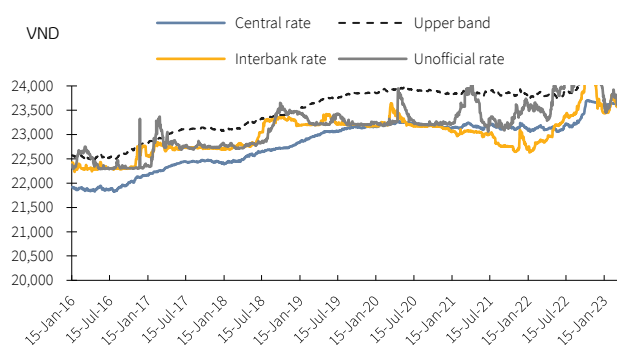
The unofficial exchange rates plunged as the domestic–international gold price difference narrowed

1Q unofficial exchange rates plunged when the domestic–international gold price difference narrowed to less than VND10 million/tael, thereby limiting gold smuggling. As of the end of March 2023, the average unofficial USD/VND exchange rate dropped by 2.73% YTD to 23,520.

NEER and REER both see an uptrend

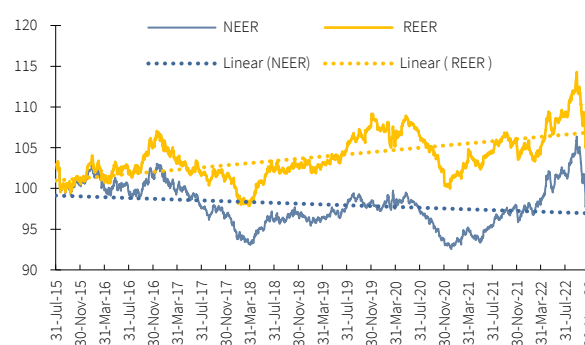
The NEER and REER of VND tend to increase (Figure 48). On March 31, the NEER increased by 2.45% YoY and REER rose 4.0% YoY (in line with the VND appropriation in the basket of trading partner currencies). The increase in NEER was mainly due to the USD appreciation compared to the same period in 2022, and the stronger increase in REER reflects that Vietnam's inflation is already higher than that of its main trading partners (as Vietnam has an inflation lag of about two quarters) (Figure 51). However, Vietnam's inflation is still well controlled and has begun to show signs of cooling down from March 2023, so it may not negatively affect the competitive advantage of Vietnamese goods

Fig 47. Vietnam – USD/VND exchange rates (VND)



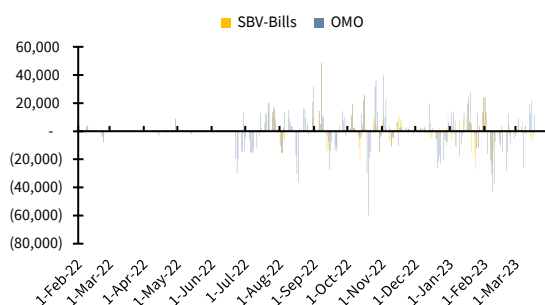
Source: Bloomberg, KB Securities Vietnam

Fig 48. Vietnam– NEER & REER (point)



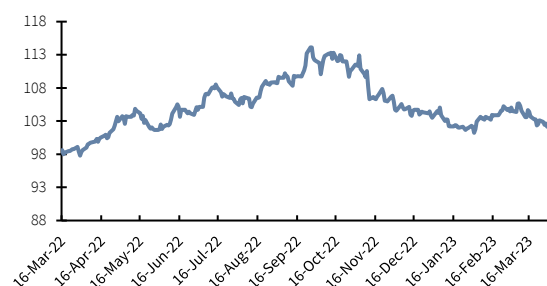
Source: Bloomberg, KB Securities Vietnam

Fig 49. Vietnam – Open market operations



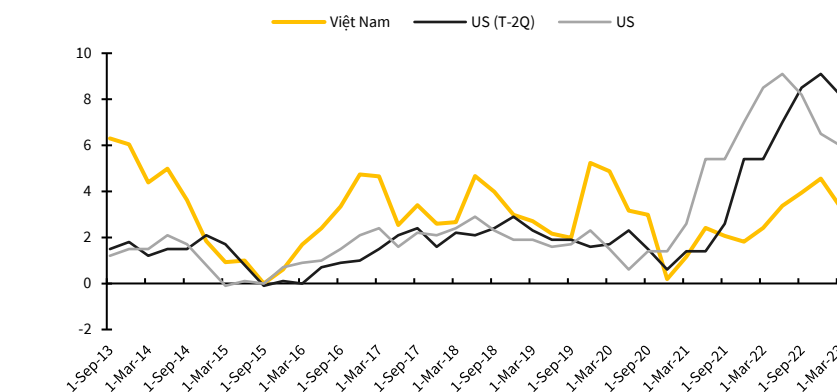
Source: State Bank of Vietnam, KB Securities Vietnam

Fig 50. US – DXY



Source: Bloomberg, KB Securities Vietnam

Fig 56. Vietnam – Correlation between Vietnam & US inflation rates



Source: World Bank, KB Securities Vietnam

2. 2023F exchange rates

USD/VND exchange rate is
forecasted to be stable

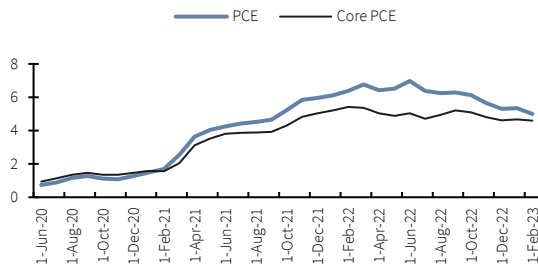
We expect USD/VND exchange rates to be stable or only fluctuate within a narrow band of 2% in 2023 as the foreign currency supply is forecasted to be flat vs 2022, Vietnam should maintain a trade surplus, and FDI and remittances flows to Vietnam are stable.

Particularly in 2Q23, we estimate that the domestic exchange rate will fluctuate slightly around 23,500 when 1) DXY Index is forecast to fluctuate around 102 points, assuming the Fed will end its interest rate hikes at the end of 2Q (according to the base scenario in the *2Q23 Stock market outlook report*). (2) Abundant foreign currency supply is a factor that helps the SBV continue to buy USD and increase foreign exchange reserves. According to our estimation, the SBV bought USD4 billion in 1Q when the domestic exchange rate reached 23,450, which is also the price of USD bought from the SBV.

We expect the SBV could buy USD10 – 12 billion in 2023

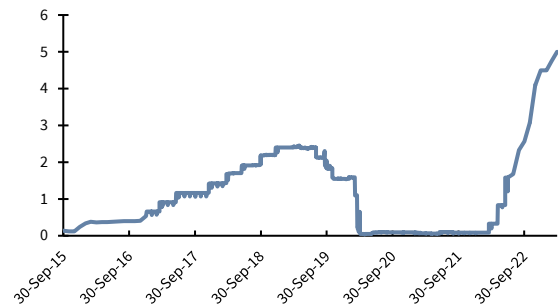
For the whole year of 2023, we expect the SBV will buy USD10 – 12 billion, equivalent to the 10-year average amount (from 2012 to 2021) thanks to (1) good supply of foreign currency from remittances and stable FDI disbursement, maintaining trade surplus despite a decrease in export turnover, and net foreign debt; and (2) sagging DXY Index when the risk of US recession increases since the collapse of three banks in the US.

Fig 52. Vietnam – PCE & Core PCE in 2019–2022 (%)



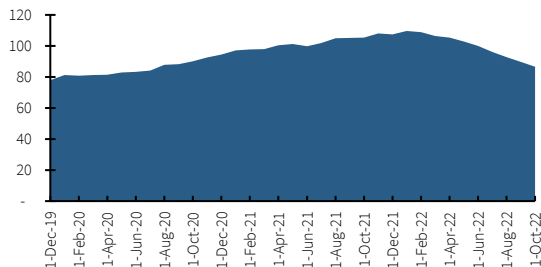
Source: Bloomberg, KB Securities Vietnam

Fig 53. US – Fed funds rates (%)



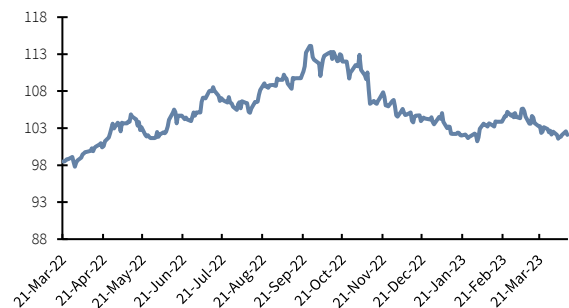
Source: KB Securities Vietnam

Fig 54. Vietnam – FX reserves (USDbn)



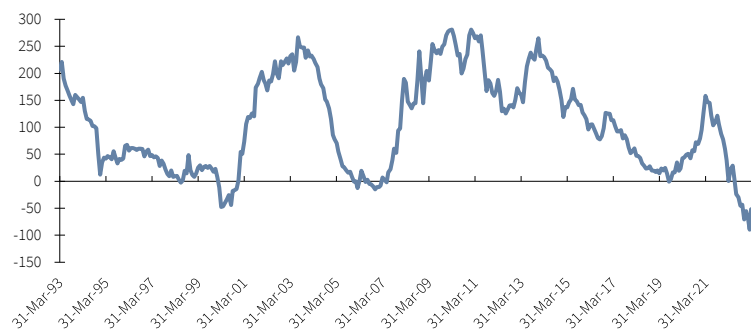
Source: Bloomberg, KB Securities Vietnam

Fig 55. US – DXY Index



Source: VBMA, KB Securities Vietnam

Fig 56. US – 10Y & 2Y yield spread



Source: World Bank, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh – Head of Research

binhnx@kbsec.com.vn

Research Division

research@kbsec.com.vn

Equity

Duong Duc Hieu – Head of Equity Research

hieudd@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy

anhtd@kbsec.com.vn

Banks, Insurance & Securities

Nguyen Anh Tung – Senior Analyst

tungna@kbsec.com.vn

Macroeconomics & Banks

Le Hanh Quyen – Analyst

quyenlh@kbsec.com.vn

Nguyen Duc Huy – Analyst

huynd1@kbsec.com.vn

Strategy, Chemicals

Thai Huu Cong – Analyst

congth@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst

ngaphb@kbsec.com.vn

Strategy, Fishery & Textiles

Tran Thi Phuong Anh – Analyst

anhhttp@kbsec.com.vn

Nguyen Duong Nguyen – Analyst

nguyennd1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst

anhntn@kbsec.com.vn

Retails & Consumers

Pham Phuong Linh – Analyst

linhpp@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant

thonc@kbsec.com.vn

Oil & Gas, Utilities

Nguyen Dinh Thuan – Analyst

thuannd@kbsec.com.vn

Nguyen Thi Huong – Assistant

huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276

Email: ccc@kbsec.com.vn

Website: www.kbsec.com.vn

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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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