

4Q22 Macro Outlook

Less freedom of policy choices

October 19, 2022

Some of KBSV's forecasts on Vietnam's economy in 2022 are as follows:

- 1) **2022F GDP increases by 7.8%** and grows stably in 4Q22 (+5.3% YoY).
- 2) **Headline CPI is estimated at 3.8%** for the whole year of 2022, which is under the 4.0% target set by the Government. The moderate supportive monetary policy of the State Bank of Vietnam (SBV) does not impose much pressure on money supply, and commodity prices, especially gasoline prices, retreated.
- 3) **Deposit rates should gain at least 1.0%**. Besides, lending interest rates may post modest gain of 0.4–0.7%, which is lower than that of deposit interest rates in the context of rising inflation and credit demand after the economic reopening. The SBV will likely continue to raise the policy rate by 0.5–1% and target credit growth of 14%, equivalent to the increase in 2021.
- 4) **The USD/VND exchange rate is expected to climb 5.5 – 6% YTD** as the supply of foreign currency is under pressure.

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I. 2022 macroeconomic overview

Most industries and fields showed signs of recovery in the first nine months of 2022. Some industries that achieved higher growth rates than the pre-COVID period are manufacturing & processing and services.

For the rest of the year, we expect that the positive signals of the macro economy will remain as. The supportive factors are: the Government speeds up the public capital disbursement; domestic consumption and production recover; exports benefit from the roadmap to join FTAs (although exports are also under pressure from the global economic downturn that made consumer demand of other major trade partners decreased); and FDI inflows remain stable (despite inflationary pressure and exchange rate manipulation). KBSV believes that the exchange rate and inflation will still be under the control of the Government.

In 2022, inflation and the risk of a global recession are unpredictable factors that can hold back Vietnam's economic growth.

Table 1. Vietnam – 2022F macroeconomic indicators

	Unit	KBSV's forecasts		
		3Q22	July 2022	October 2022
GDP growth	% YoY	8.33	7.2	7.8
Headline CPI	% YoY	2.73	3.8	3.8
Credit growth	% YTD	10.54*	14	14
Refinance rate	%/annum	5	4	5.5
USD/VND exchange rate	VND	23,860	23,400	24,200

Source: KB Securities Vietnam

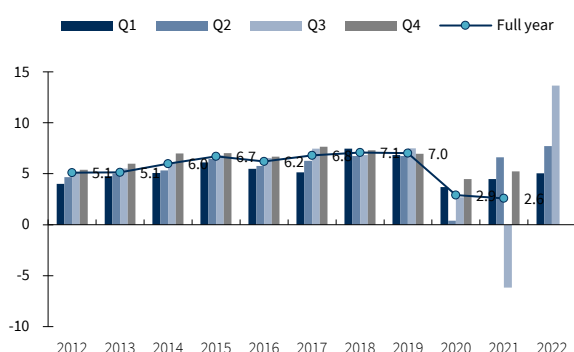
* Date as of September 20, 2022

II. 9M22 macro highlights

1. GDP growth

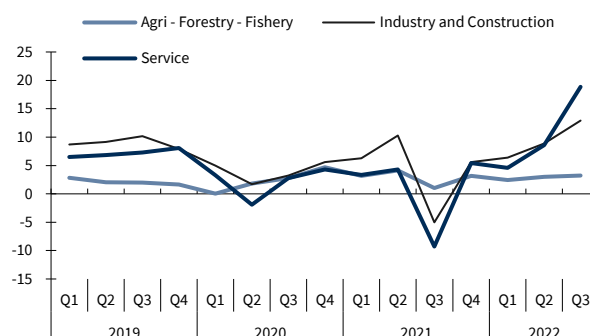
The General Statistics Office (GSO) estimated GDP in the first nine months of 2022 rose 8.33% YoY. It reflects that production and business activities have gradually grow again, and the Government's socio-economic recovery and development policies are effective. Particularly in 3Q22, GDP increased by 13.67% YoY, compared to the low level of 3Q21 when the Covid-19 hit hard on the economy.

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



Source: General Statistics Office, KB Securities Vietnam

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



Source: General Statistics Office, KB Securities Vietnam

From the demand side, consumption, private investment and FDI gradually recovered.

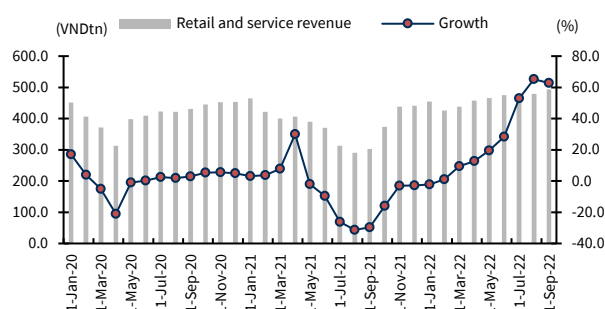
Consumption showed a remarkable recovery

The final consumption growth in 9M22 increased 7.26% YoY, showing the recovery trend of the economy. Trade and service activities were active again with the total retail sales of goods and services reaching VND4,170 trillion, up 21.0% YoY. This is a high growth rate, underpinned by (1) inflation effects when prices of goods & services increased by 11.6% YoY and (2) low base levels in the same period last year were affected by the Covid-19. Retail sales of goods hit VND3,300 trillion, up 15.8% YoY and accounting for only 84% of revenue under normal conditions (without Covid-19 effects).

Total social Investment recorded a good growth

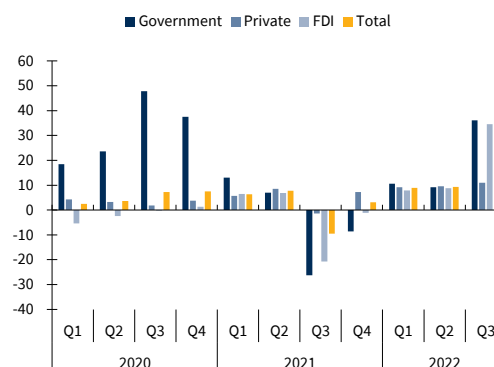
9M22 total social investment capital reached VND2,130 trillion, a good growth of +12.5% YoY with the contribution from the private sector (VND739.3 trillion, +9.9% YoY), public sector (VND1,227 billion, +10.0% YoY), and FDI (VND 358 trillion, +16.3% YoY).

Fig 3. Vietnam – Retail & 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 & construction sector and the service sector kept rebounding from the beginning of the year (Figure 2).

Industrial and construction showed a strong growth

Industrial and construction prospered in 9M22 with a 9.44% YoY growth. To be more specific, the industrial sector gained 9.63% YoY, mainly thanks to the manufacturing industry (+10.69% YoY – contributing 2.74 percentage points to the headline GDP).

9M22 IIP rose 9.6% YoY and recorded growth in 61 provinces and cities across the country.

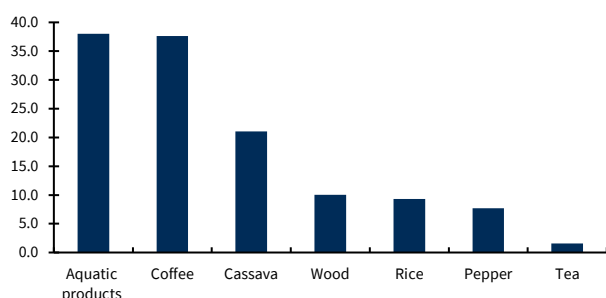
Service sector increased as many service activities gradually recovered

Service sector climbed 10.6% YoY as many service activities bounced back positively. Financial, banking and insurance grew 9.1% YoY; transportation and warehousing went up 14.2%, wholesale and retail increased 10.2% YoY. In particular, the accommodation and food service industry showed a strong rebound (up 41.7% YoY) after Vietnam reopened tourism activities in the new normal.

The agriculture, forestry and fishery sector remained stable

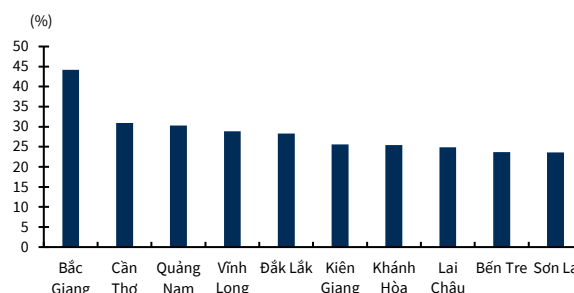
The agricultural, forestry and fishery sector was flat at 2.99% YoY, meeting domestic and export demand. Livestock production is recovering despite difficulties from high prices of animal feed. Fishery processing activities also bounced back strongly, and exports of pangasius and shrimp spiked on increasing demand in major foreign markets and low global supply. Export turnover of a number of agricultural products in 9M22 gained, which helped to maintain the growth rate of the whole region (Figure 5).

Fig 5. Vietnam – 9M22 agricultural export growth (%YoY)



Source: Vietnam Customs, KB Securities Vietnam

Fig 6. Vietnam – Top 10 provinces with highest IIP in 9M22



Source: General Statistics Office, KB Securities Vietnam

2. Inflation rate

Inflationary pressure increases

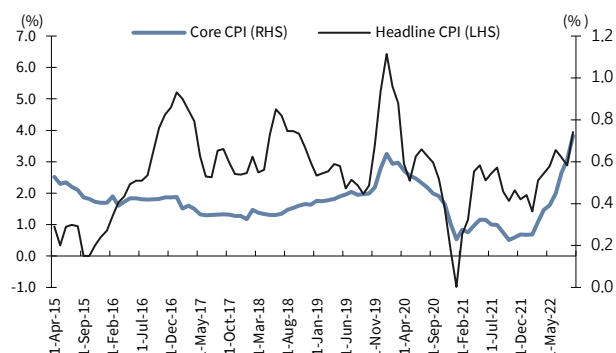
9M22 average CPI inched up 2.73% YoY. The inflation rate tends to increase gradually on high demand for raw materials for production after Covid. Meanwhile, the supply chain is congested due to 1) Russia-Ukraine war and 2) China's Zero Covid strategy that caused blockade in major cities, ports and border gates. This led to a sharp increase in commodity prices on the global market. The positive point is that pump prices cooled down in line with world gasoline prices in 3Q, helping to restrain the sharp rise of inflation. Core inflation tends to be in line with headline inflation, 9M22 core CPI gained 1.88% YoY.

Petrol and gas prices are the two most influential factors on CPI

In the first nine months of 2022, the main CPI drivers include:

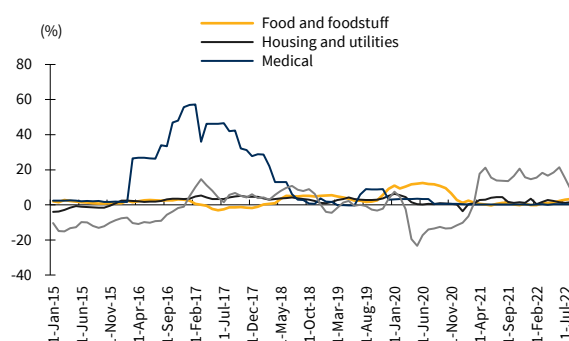
- 1) Prices of food items decreased by 0.5% YoY, reducing the overall CPI by 0.11 percentage points.
- 2) The price of construction materials surged 7.88% YoY due to higher prices of cement, iron, steel and sand in line with increasing cost of input materials, causing the headline CPI to increase by 0.16 percentage points.
- 3) Domestic gasoline prices rose 41.07% YoY, making headline CPI go up 1.48 percentage points.
- 4) The prices of educational services dropped 1.88% YoY, causing the headline CPI to decrease by 0.1 percentage points. Some provinces and centrally-run cities exempted and reduced tuition fees for the school year 2021-2022 due to the impact of the Covid-19

Fig 7. Vietnam – Headline & core inflation (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 8. Vietnam – Price movements by key sectors (%YoY)



Source: General Statistics Office, KB Securities Vietnam

3. Interest rates

The SBV raised policy rates

The SBV issued an official document to raise policy rates on September 22, 2022. Accordingly, the refinancing interest rate increased by 1%, discount rate up 1%, and ceiling deposit interest rate from one month to six months up by 1–5%. The SBV said it raised policy rates and deposit rates but tried to keep lending interest rates stable and asked credit institutions to continue reducing interest rates to support people and businesses after the pandemic. By the end of September 20, credit growth reached 10.54% YTD, showing that the capital absorption of the economy is high, which boosted economic growth in 9M22.

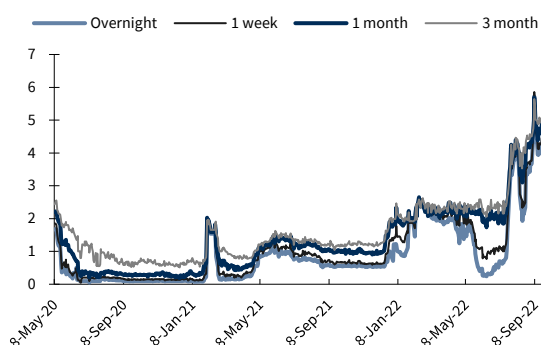
Interbank interest rates in all terms increased sharply

At the end of September, interbank interest rates surged in all terms, especially overnight interbank rates that stayed high in the second half of 3Q. The overnight, one-week and one-month interest rates rose +410 bps, +385 bps and +297 bps respectively compared to the end of June, which implies a lack of cash in the system.

Deposit rates tend to increase

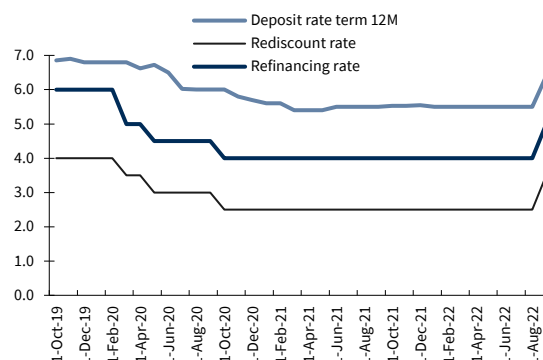
Deposit rates tend to increase for both short and long terms in 3Q as banks faced a lack of cash due to high credit demand after the SBV extended credit limits for banks to achieve the credit growth target of 14% YTD. In addition, commercial banks all raised deposit rates after the SBV lifted the policy rates and the ceiling deposit rates. Small banks recorded a high increase in deposit interest rates (ranging from 1% to 2%), while state-owned banks had narrower fluctuation (around 1%).

Fig 9. Vietnam – Interbank interest rates (%)



Source: Bloomberg, KB Securities Vietnam

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



Source: Bloomberg, KB Securities Vietnam

4. USD/VND exchange rate

The interbank USD/VND exchange rate hit 23,861 (+3.9% YTD)

At the end of September, the interbank exchange rate reached 23,861 (+3.9% YTD) amid wobbly international market and high demand for USD as a haven currency. The DXY index rose to 112.7 points (+%16 YTD) (Figure 14) with two supportive factors: 1) geopolitical risk between Russia and Ukraine and 2) the Fed's tightening monetary policy while the health of the US economy and labor market remain relatively stable despite concerns about recession risks. Accordingly, the SBV has managed the exchange rate flexibly and stabilized the rate through 1) the sale of foreign currency to supplement the foreign currency for the market (we estimated the SBV sold about USD22 – USD23 billion via three-month USD contract forwards and spot sales) and 2) the increase of the selling rate of USD at the exchange (increased for four times since the beginning of the year). The total increase is VND905 or 3.9% YTD, the SBV's goal is to find a new balance amid high demand for USD in the banking system. In addition, the gap of interbank interest rate between the domestic VND and the international USD once dropped to negative levels, sometimes fell to -1.2% in overnight terms, putting more pressure on the USD/VND exchange rate when the demand to buy USD continues to rise. As a result, from the end of 2Q, the SBV combined the use of T-bill and OMO to regulate and support system liquidity.

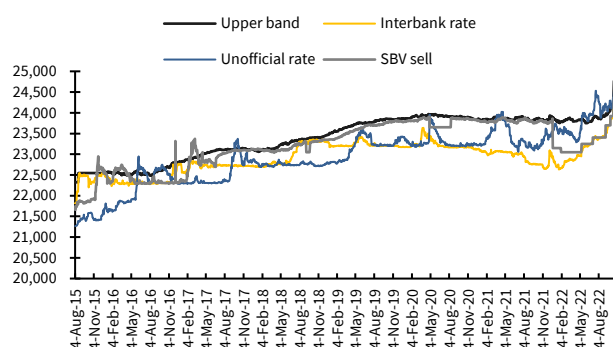
The unofficial rates increased sharply when the domestic – international gold price gap widened

The unofficial rates surged as the domestic – international gold price gap once widened to VND18.0 million per tael, leading to more gold smuggling (on September 30, the gap was at VND17.0 million/tael). At the end of September, the USD/VND unofficial rate increased by 2.1% YTD to 24,200.

NEER and REER both showed a strong uptrend

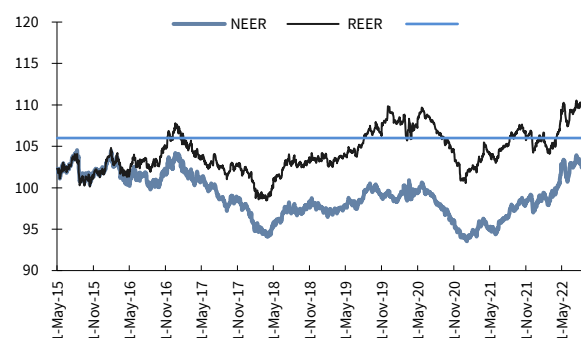
The NEER and REER of VND showed an obvious uptrend (Figure 12). On September 30 NEER and REER increased by 9.81% YTD and 9.46% YTD (in line with the VND appreciation against the basket of currencies of trading partners). The increase of NEER was mainly due to the strong appreciation of the USD, and the slight increase in REER reflected that Vietnam's inflation in the first nine months of the year was still lower than that of its main trading partners. Unlike the period 2015–2016, technically when the REER crossed the 106 threshold, the SBV adjusted the VND devaluation to avoid a negative impact on exports. However, we assess that SBV's top goal in this period is to stabilize the exchange rate and avoid import inflation, although it may have a negative impact on exports when the basket of currencies of trading partners continues to fall sharply.

Fig 11. Vietnam – USD/VND (VND)



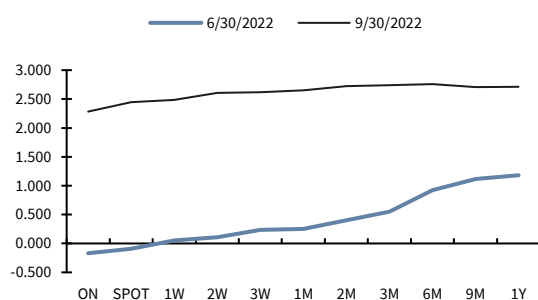
Source: Bloomberg, KB Securities Vietnam

Fig 12. Vietnam – NEER & REER (points)



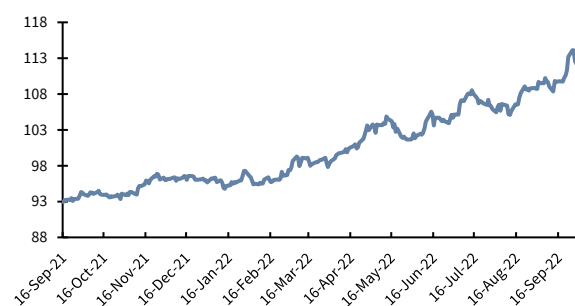
Source: Bloomberg, KB Securities Vietnam

Fig 13. VBMA Swap Curve – VND–USD interest rate gap (%)



Source: VBMA, KB Securities Vietnam

Fig 14. US – DXY (points)



Source: Bloomberg, KB Securities Vietnam

2022F Macro Outlook

1. 2022F GDP growth

2022F GDP growth should touch 7.8%

We upgrade our 2022F GDP growth to 7.8% from the 7.2% in the previous report. Supporting factors include (1) Public spending, (2) more FTAs to boost exports, (3) stable FDI inflows, and (4) strong domestic consumption.

However, unpredictable external elements, namely high global inflation and the risk of economic collapse following the US Federal Reserve and other major central banks' attempts to tackle runaway inflation by aggressively hiking interest rates, may restrain Vietnam's economic growth via exports, production, and inflation. Therefore, we will continue to follow closely the two factors and keep them up to date.

Table 2. Vietnam – Economic stimulus package in the 2022–2023 period

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

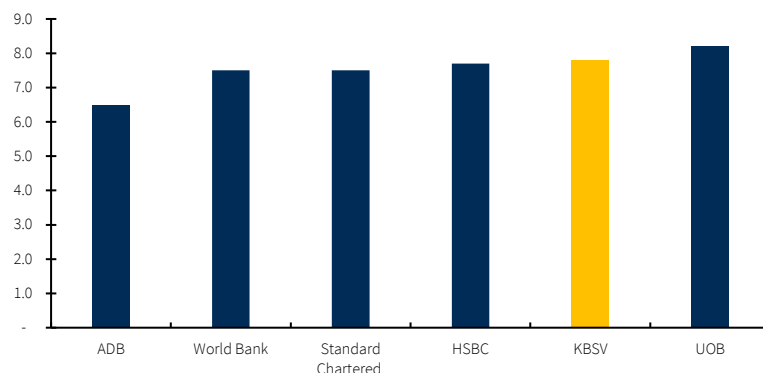
Source: Government Report, KB Securities Vietnam

Table 3. Vietnam – 2% interest rate support package

Criteria	Details
The reduction rate	2%/year
Size	VND40,000 billion
Interval	Loans that are approved and disbursed between January 1, 2022 and December 31, 2023
Targeted sectors	Aviation, logistics, tourism, accommodation services, catering, education and training, agriculture, forestry and fisheries, processing & manufacturing industry, software publishing, computer programming, information services, construction activities that directly serve the aforementioned sectors but do not include construction activities for real estate purposes specified in the economic sector code.
Conditions	Individuals and organizations that are subjected to incentives. The loans are denominated in VND, with no overdue principal and/or late interest payment.
The limit of each commercial bank	The supported interest rate limits of commercial banks equivalent to 40,000 * (current loans & advances to customers/registered loans and advances to SBV) but not over the registered limits.

Source: Decree 31/2022/ND-CP

Fig 15. Vietnam – 2022F GDP growth (%)



Source: HSBC, World Bank, Asian Development Bank, United Overseas Bank, Standard Chartered, KB Securities Vietnam

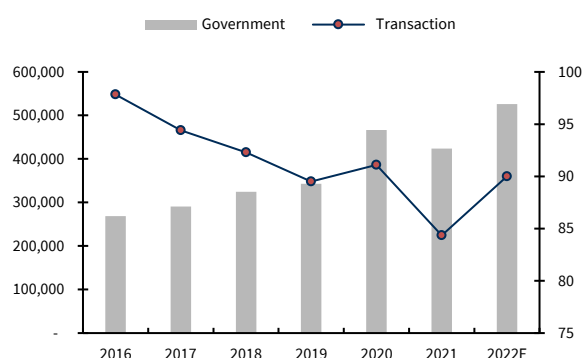
Public spending should act as a driving force for the economic growth

Public investment remains a key solution to stimulate the economy and simultaneously has spillover effects on other sectors in the long run. A total of VND253.1 trillion sourced from the State budget was disbursed between January and September, equaling 48.1% of the year plan and up 15.8% YoY. The disbursement rate is still limited due to the specificity of disbursement of public investment capital that is low in the first months of the year and increases sharply in the last months of the year, especially in the fourth quarter. This past time, bottlenecks in site clearance and skyrocketing raw material costs are holding back construction progress since contractors await price adjustments. Moreover, the National Assembly approved the resolution on the medium-term public investment plan in July 2021, so contractors have mainly continued with the ongoing projects since the start of this year. Meanwhile, new projects are still in the preparation phase for legal procedures, which usually takes 6–8 months.

Many key public projects are promoted by the Government

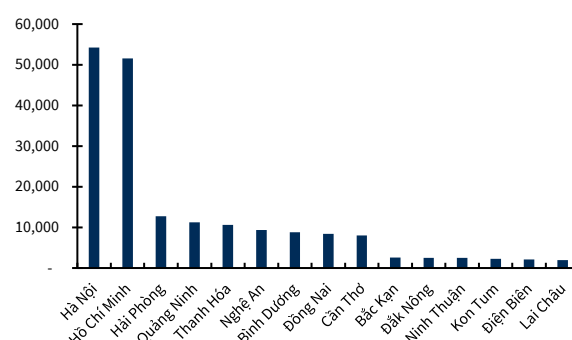
To accelerate disbursement for the year-end period, the Prime Minister adopted three thematic resolutions on public investment capital disbursement and three dispatches and assigned six working groups to continue inspection, helping to remove difficulties and obstacles. The Government has just issued Resolution No. 124/NQ-CP dated September 15, 2022 on measures and tasks to promote disbursement in the rest of 2022 to reach 95–100% of the plan assigned by the Prime Minister. The Government also determines to disburse 50% of the socio-economic recovery package by the year-end. Therefore, we expect public investment disbursement to achieve better results and reach 90–95% of the plan, corresponding to more than VND200 trillion disbursed between September and December. However, objective and subjective factors like slow construction progress, high raw material prices, and bottlenecks in site clearance can make the disbursement fall short of expectations.

Fig 16. Vietnam – Public investment disbursement (VNDbn)



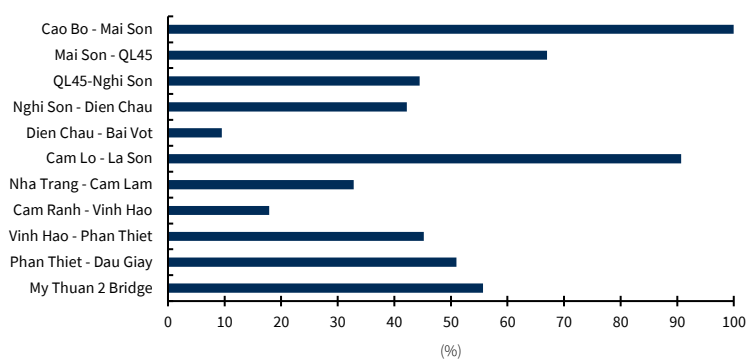
Source: General Statistics Office, KB Securities Vietnam

Fig 17. Vietnam – State budget allocation in 2022F (VNDbn)



Source: Government Report, KB Securities Vietnam

Fig 18. Vietnam – Construction progress of the expressway projects phase 1



Source: KB Securities Vietnam

Table 4. Vietnam – Key public 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 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

Source: KB Securities Vietnam

Exports are coming under more pressure

In the first nine months of 2022, Vietnam's export turnover of goods touched USD282.52 billion (+10.3% YoY). Statistics from the General Department of Customs show that most traditional exports to critical trading partners enjoyed exceptional growth compared to the same period last year (Figure 19). The drivers of Vietnam's export growth this year are:

- Effective FTAs (CPTPP, EVFTA, UKFTA, and RCEP) that helped domestic exporters to gain competitive advantages thanks to preferential tariffs
- The growth of the manufacturing sector following the economic reopening

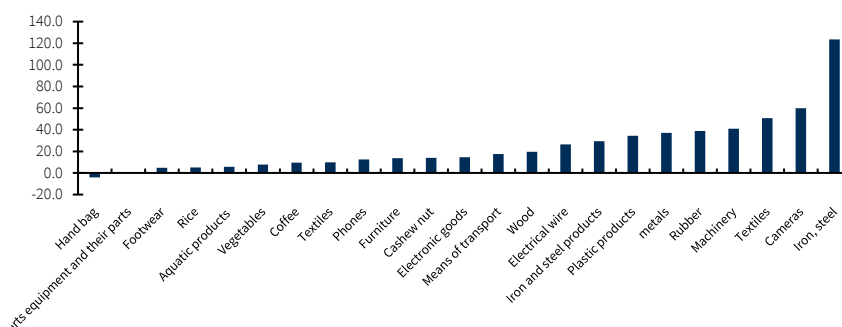
Nevertheless, we assess that Vietnam's export turnover in the last months of the year will be under more pressure because: (1) Exports of foreign-invested enterprises (FIEs) may shrink due to softer demand in major export markets (Figure 20). Specifically, USD82.5 billion, or 43% of Vietnam's total import-export turnover, was largely machinery, equipment, and electronic components from FIEs. However, a big name like Samsung (accounting for 50% of the export value of electronic products, is shrinking production, reducing the number of working days of workers from five to three days a week and encouraging vacations for factory workers in Vietnam. As a result, the index of industrial production (IIP) of the electronics industry fell sharply in September (-2.4 YoY); (2) The price increase of Vietnam's key exports such as agricultural, forestry and fishery products, rice, steel, and others may grind to a halt or reverse in the upcoming period as a result of abundant supply; (3) The appreciation of the VND (proportional to a stronger USD) against the currencies of trading partners can make Vietnam's exports less competitive as evidenced by the rise in REER (Figure 12).

Table 5. Roadmap for tax exemption at 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.		

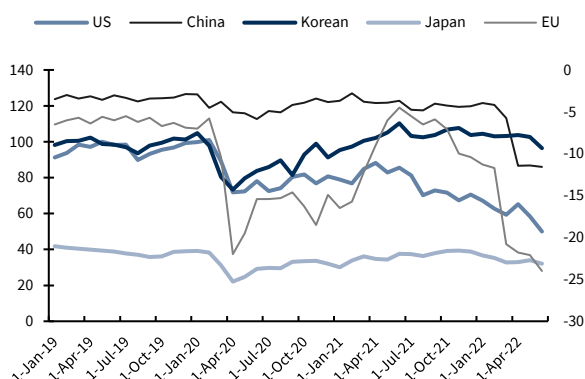
Source: KB Securities Vietnam

Fig 19. Vietnam – Export growth of goods in 9M22 (%)



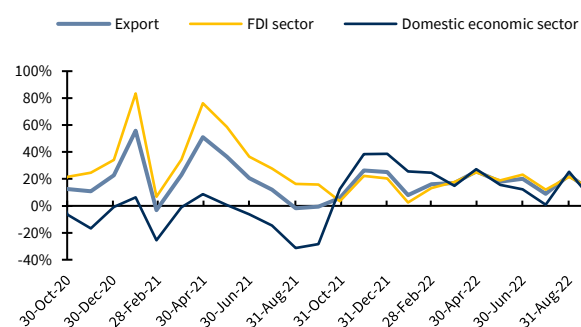
Source: General Department of Customs, KB Securities Vietnam

Fig 20. Vietnam – Consumer confidence index of major trading partners (%)



Source: Google, KB Securities Vietnam

Fig 21. Vietnam – Export growth across sectors (%YoY)



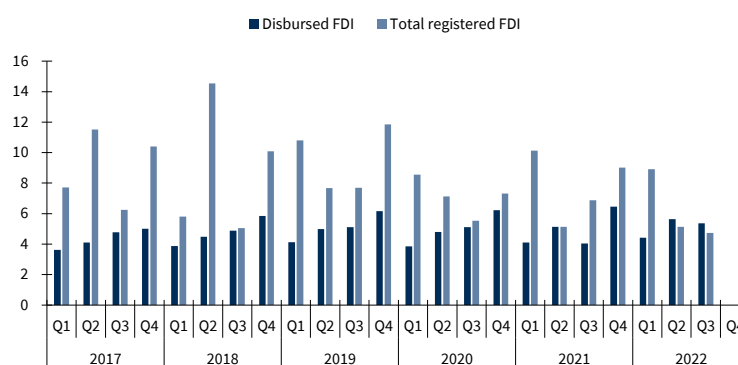
Source: Fiinpro, KB Securities Vietnam

FDI inflows should continue to be poured into Vietnam thanks to (1) the reopening for international trade; and (2) its attraction as an ideal destination

We believe that the FDI Confidence Index (FDICI) will increase compared to 2021 thanks to: (1) Vietnam has fully reopened international trade since March 15, 2022, creating favorable conditions for foreign experts to enter Vietnam to research and sign contracts and speeding up backlogged projects under the negative impacts of Covid lockdowns and suspension of international flights in 2020–2021; (2) Vietnam remains an attractive destination thanks to plenty of signed FTAs, favorable geographical location, abundant and low-wage labor force, financial support policies by the Government, etc...; and (3) China's supply chain disruption is seen as an opportunity for Vietnam when foreign investors move production out of China (Figure 24). Besides, the recent sharp depreciation of the Chinese Yuan (CNY) may negatively affect foreign investors' confidence in the business environment in China, contrasting the stability of the VND (Figure 23). Between January and September, disbursed FDI reached USD15,428 million (+16.3% YoY). Meanwhile, additional registered capital kept growing strongly to touch USD8,350 million (up 29.9% YoY), reflecting foreigners' confidence in the business environment and diversified supply chains in Vietnam.

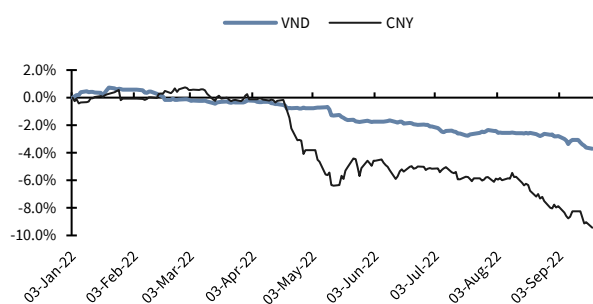
On the contrary, newly registered FDI fell to USD18,755 million (–15.3% YoY) over the first nine months of the year due to: (1) the high base achieved in the same period last year with the contribution from two registered projects worth USD4.41 billion, (2) looming worldwide recession that left foreign investors more cautious of registering FDI; and (3) the moderate and unstable increase in Vietnam's economy-wide labor productivity over the years, according to a report published in 2021 by Vietnam Institute for Economic and Policy Research (VEPR). Vietnam, therefore, will attract less FDI inflows in the coming time when the General Statistics Office forecasts it will enter the elderly population structure from 2026, corresponding to 10.2–19.9% of the population aged above 65 years old, which will last for 28 years until 2054.

Fig 22. Disbursed and registered FDI (USDmn)



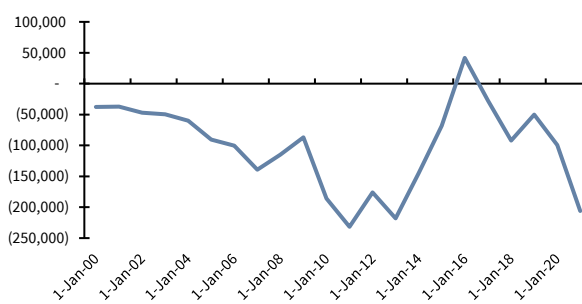
Source: Ministry of Planning and Investment, KB Securities Vietnam

Fig 23. Vietnam – VND, CNY against USD



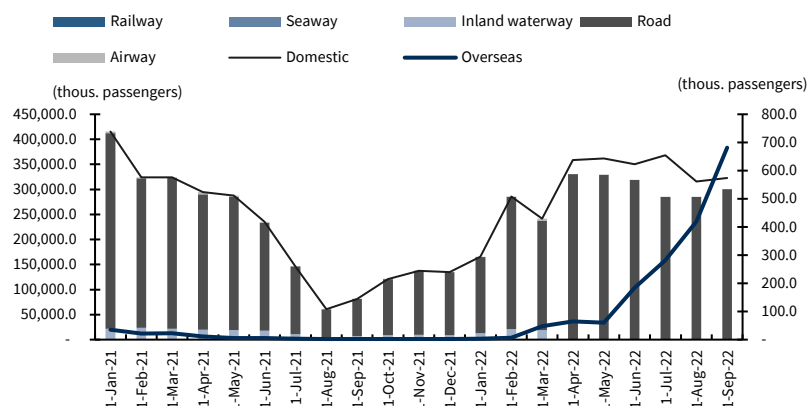
Source: Bloomberg, KB Securities Vietnam

Fig 24. China – Foreign direct investment, Net (BOP, USDmn)



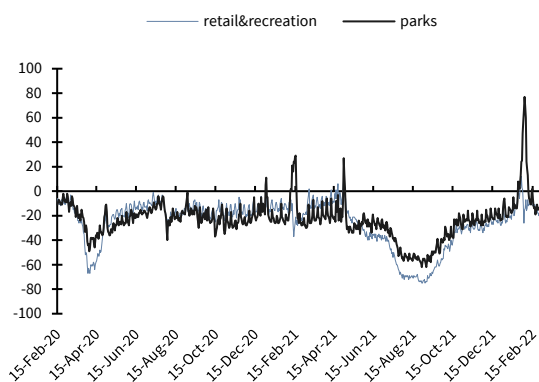
Source: International Monetary Fund, Bloomberg, KB Securities Vietnam

Fig 25. Vietnam – Domestic and international tourist arrivals (thousand people)



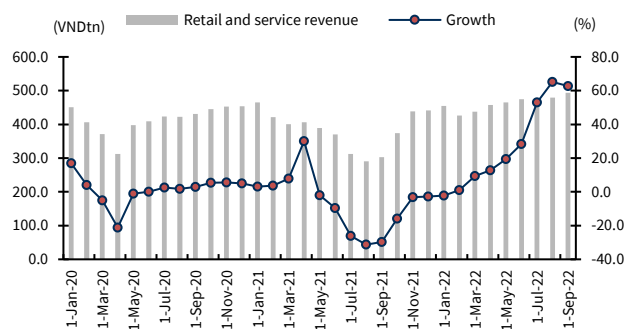
Source: General Statistics Office, KB Securities Vietnam

Fig 26. Vietnam – Mobility to retail & recreational places (%)



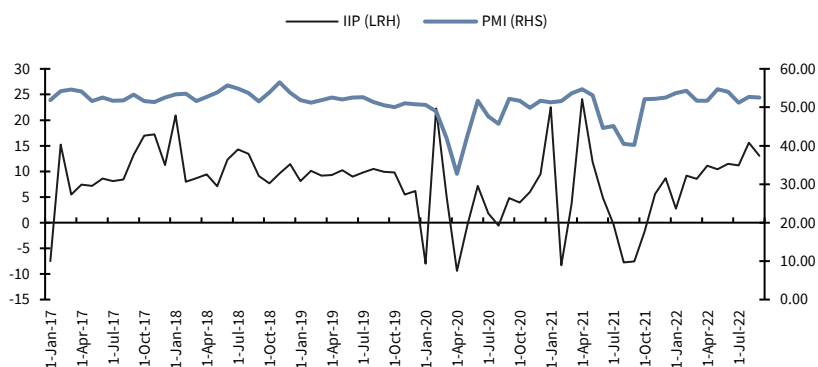
Source: Google, KB Securities Vietnam

Fig 27. Vietnam – Total retail sales of goods and services (VNDtn)



Source: Fiinpro, KB Securities Vietnam

Fig 28. Vietnam – IIP & PMI



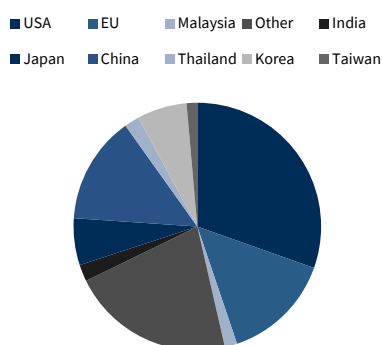
Source: General Statistics, HIS Markit, KB Securities Vietnam

Runaway inflation and looming global recession would restrain Vietnam's economic growth

All-time high inflation and recession risk would restrain global economic growth as well as Vietnam's for the following reasons: (1) The ongoing Russia-Ukraine war is disrupting global supplies of essential commodities, pushing prices higher, slowing trade, and driving down incomes; (2) major central banks turn more hawkish when aggressively raising interest rates amid inflation fears; and (3) consumer demand among Vietnam's main trading partners, including the US, Europe, and China, tends to decline due to rising worries about economic recession, which can become limit Vietnam's exports.

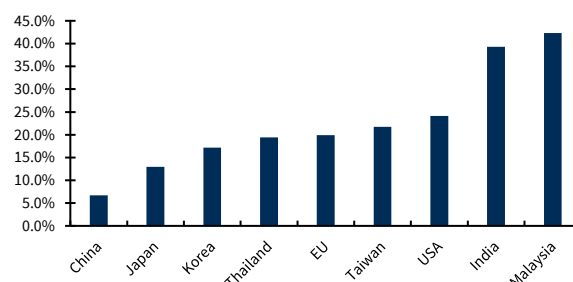
In our base case scenario for 4Q22, inflation is forecast to increase modestly in the near future with the Fed raising interest rates to 4.0–4.25% by the end of 2022, and the US economy is strong enough to weather the rate hike cycle without slipping into a recession throughout the last quarter of 2022 (Figure 31, 32).

Fig 29. Vietnam – Exports to foreign markets in 9M22 (%)



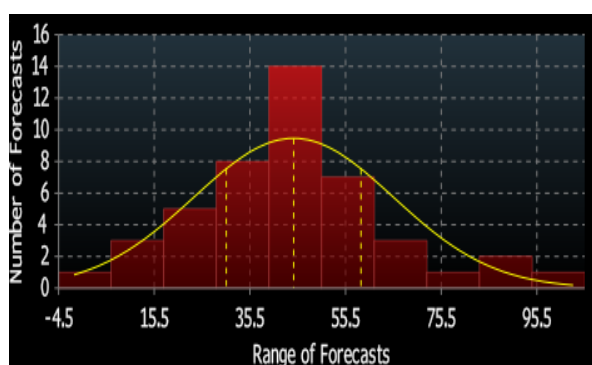
Source: General Department of Customs, KB Securities Vietnam

Fig 30. Vietnam – Export growth to foreign markets in 9M22 (%)



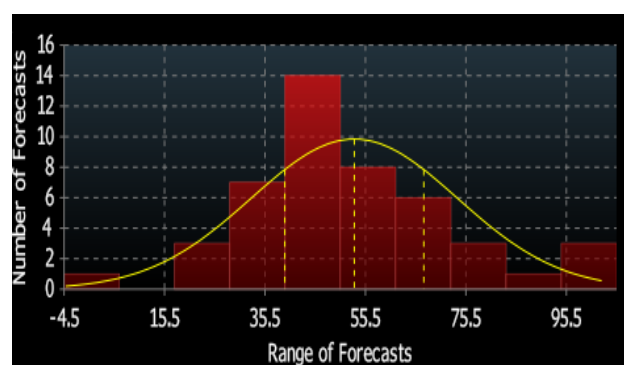
Source: General Statistics Office, KB Securities Vietnam

Fig 31. US – Probability of recession over the next 12 months (Survey on July 27)



Source: Bloomberg, KB Securities Vietnam

Fig 32. US – Probability of recession over the next 12 months (Survey on September 12)



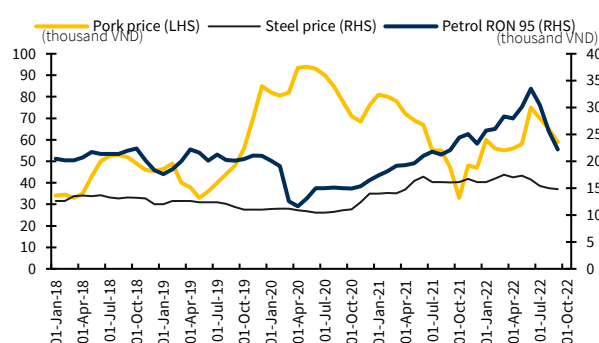
Source: Bloomberg, KB Securities Vietnam

2. 2022F inflation rate

Despite increasing risk elements, we expect Vietnam's inflation to be kept in check well below 3.8% for the whole year 2022, supported by: (1) Domestic commodity prices somewhat cooled down. Particularly, fuel prices fell sharply in line with global prices from the end of the third quarter; (2) Live hog prices remain consistent around VND55,000–60,000/kg thanks to stable supply accommodating domestic consumption demand; and (3) Unlike most other economies, inflation pressures facing Vietnam do not stem from the ultra-loose monetary and fiscal policy in response to the COVID-19 pandemic over the last two years.

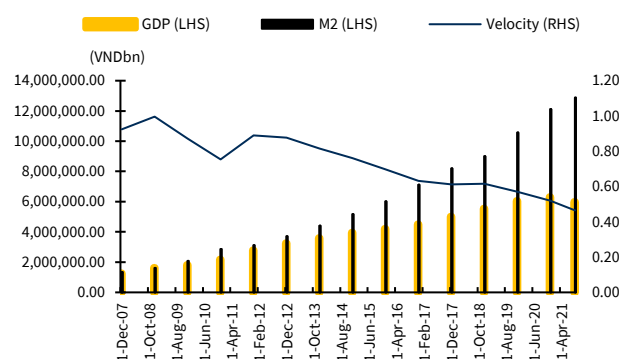
We believe elevated inflation pressures in the fourth quarter will come from the resurgence in gasoline prices linked to rising world prices amid growing consumption demand in the upcoming winter. However, we expect the Government's high priority in stabilizing domestic gasoline prices will help curb the rise of inflation.

Fig 33. Vietnam – Commodities prices



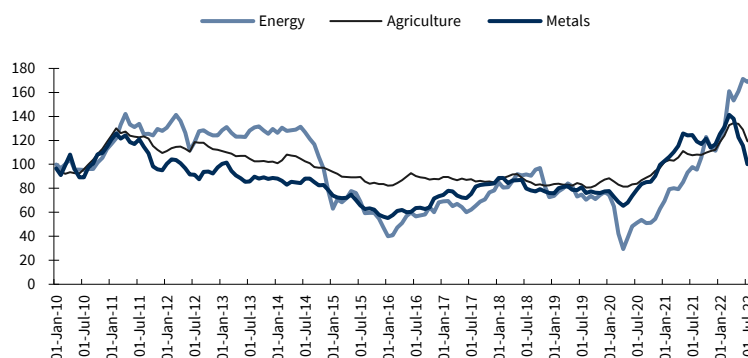
Source: Vietnam Livestock Association, Hoa Phat Group, PVOil, KB Securities Vietnam

Fig 34. Vietnam – M2, GDP, velocity of money (VNDbn)



Source: Bloomberg, KB Securities Vietnam

Fig 35. Global – Commodities prices



Source: World Bank, KB Securities Vietnam

Inflation pressures from monetary policy are not too worrying

We find inflation pressures arising from the monetary policy not too worrying. It is because the SBV proactively and flexibly operated monetary policy tools like exchange rates, interest rates, and credit growth in order of priority to control inflation. Specifically, numerous efforts have been made to stabilize the foreign exchange market in the face of a stronger USD since the start of the year, thus minimizing the adverse effects of imported inflation on the economy.

The Government prioritizes stabilizing the fuel market against the backdrop of unpredictable global prices

Domestic oil and gas prices heavily depend on the world price movement which is connected to geopolitical risks. In the fourth quarter, oil prices may return to USD100/barrel due to strong demand during the coming winter. However, we expect the Vietnamese Government to prioritize stabilizing the fuel market by reducing green tax, excise tax, or value-added tax on finished products if world prices keep spiraling. This will help curb the rise of domestic inflation to some extent.

Pork prices may rise to around VND65,000–70,000/kg

We forecast pork prices may approach VND65,000–70,000/kg thanks to recovering demand amid decreasing supply due to slowing re-herding in early 2022 following widespread African swine fever, high bran prices, and low hog prices. However, pork prices will unlikely reach the peak achieved in 2020, given the Government's priority to increase domestic supply.

Table 6. Vietnam – 2022F headline CPI (%)

No.	Groups	Weight (%)	+/- (% YoY)	Contribution to overall CPI (%)
1	Food and foodstuff			
	Grains	3.67	8	0.3
	Foodstuff	21.28	4	0.9
	Outdoor eating	8.61	3.5	0.3
2	Beverages and tobacco	2.73	1.5	0.0
3	Clothing and footwear	5.7	1.1	0.1
4	Housing, water, electricity, gas and other fuels	18.82	3.1	0.6
5	Furniture, household equipment and maintenance	6.74	1.5	0.1
6	Health	5.39	3.5	0.2
7	Transportation	9.67	9	0.9
8	Communication	3.14	-0.2	(0.0)
9	Education	6.17	5	0.3
10	Entertainment	4.55	2	0.1
11	Miscellaneous goods and services	3.53	2.5	0.1
	Total			3.8

Source: KB Securities Vietnam

3. 2022F interest rates

The SBV will likely continue to raise the policy rate by 0.5–1%

In the base case scenario, headline inflation should increase by 3.8%, assuming no further oil price shocks, though it may be fueled by the rising exchange rate and unchanged credit growth target of 14%. The SBV will likely join major central banks, especially the Fed, raising the policy rate by 0.5–1%.

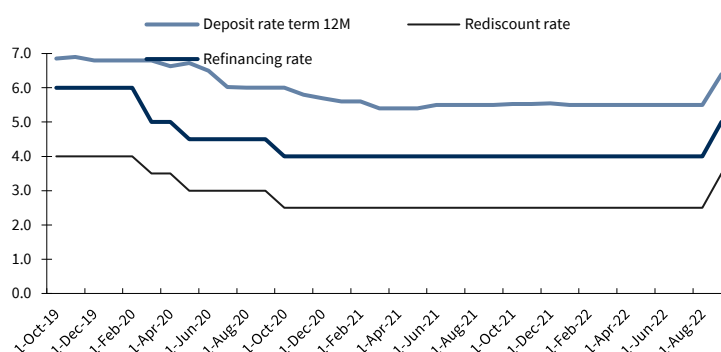
Deposit rates may further increase by at least 1.0% by the end of 2022

Lending rates tend to grow in line with deposit rates

We assess that deposit rates will further expand in the rest of 2022 due to: (1) Credit demand is set to improve to support the economic rebound, (2) Market liquidity may be under enormous pressure when deposit growth cannot keep up with credit growth, forcing commercial banks to raise deposit rates; and (3) High cash demand during the year-end period and Lunar New Year may pose a threat to liquidity of the banking system. The rise is likely around 1–1.5%, corresponding to a 3.8% rise in inflation in the base case scenario.

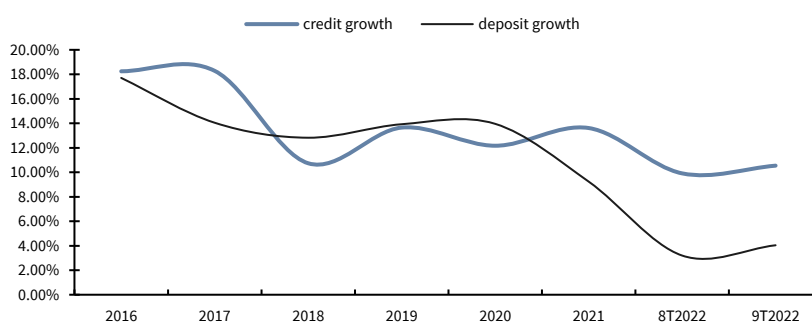
Lending rates tend to rise in line with deposit rates. However, the increase will be only about 0.4–0.7% since the Government asks banks to stabilize lending rates. At the same time, it encourages credit institutions to apply new technologies to improve operational efficiency and administration, reduce costs, and cut lending rates to the production and manufacturing sector to support post-pandemic recovery.

Fig 36. Vietnam – Deposit and policy rates



Source: World Bank, KB Securities Vietnam

Fig 37. Vietnam – Credit and deposit growth (%)



Source: KB Securities Vietnam

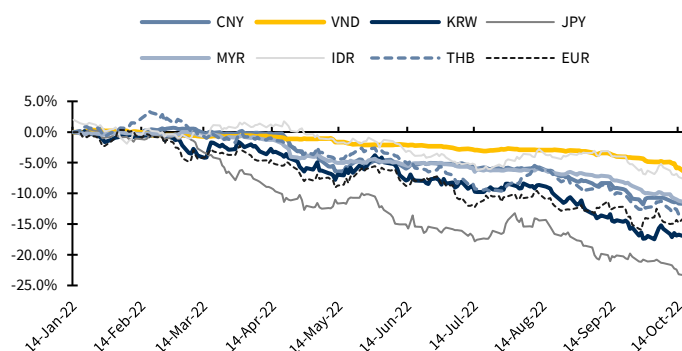
4. 2022F USD/VND exchange rate

The USD/VND exchange rate is projected to increase by 5.5–6% YTD

We forecast the USD/VND exchange rate will grow by 5.5–6% YTD by the end of this year, given the appreciation of the USD and that the USD supply in 2022 is likely to be flat YoY and export activities may face numerous challenges during the year-end period. Besides, we expect FDI and remittances to persistently flow into Vietnam.

Entering the fourth quarter of 2022, we assess that the USD/VND exchange rate will be under bigger pressure when: (1) The US dollar index (DXY) is expected to continue its uptrend due to the tight monetary policy by the Fed to rein in hotter-than-expected inflation (The US CPI in September was up 8.2% against the target level of 2%); (2) Vietnam's foreign exchange reserves by the end of September was below 12 weeks of imports, so the SBV will less likely inject more USD into the market to support a sliding value of the VND (Figure 41); (3) The significant increase of NEER and REER (Figure 12) may hurt exports as the currencies of trading partners continue to plummet against the USD; and (4) Newly registered FDI has not fully recovered, which may negatively affect future realized FDI.

Fig 38. Global – The performance of currencies against the USD

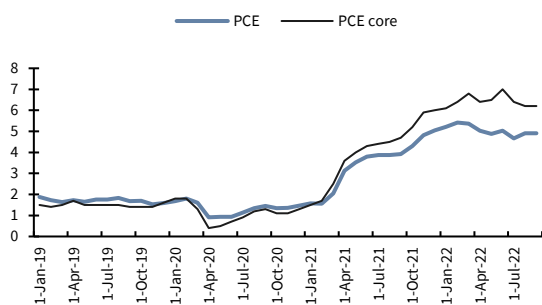


Source: Fiinpro, KB Securities Vietnam

The SBV would continue to sell USD from reserves, issue treasury bills and purchase short-term agreements in open market operations to stabilize the exchange rate

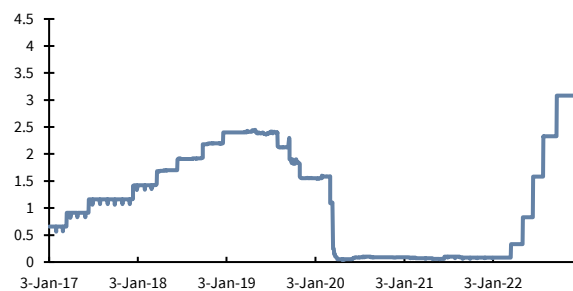
In the near term, the SBV would continue to pump more USD to the market (Figure 41), reuse the T-bills channel after freezing it for two years, and purchase short-term agreements in open market operations to stabilize the exchange rate and regulate and support liquidity against external shocks. In particular, unchecked inflation prompted central banks around the world, especially the Fed, to keep hiking interest rates and tighten monetary and fiscal policy. However, by the end of September, the foreign exchange reserves approximated only USD86 billion, equivalent to 11 weeks of imports, so the SBV would hardly intervene in the currency market through selling dollar forwards from reserves. IMF said the minimum foreign exchange reserves required should equal 8–12 weeks of imports.

Fig 39. US – PCE, core PCE in the 2019–2022 period (%)



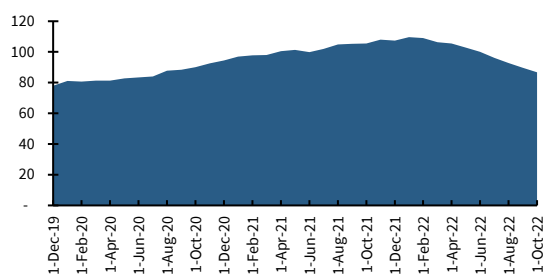
Source: Bloomberg, KB Securities Vietnam

Fig 40. US – Fed funds rate (%)



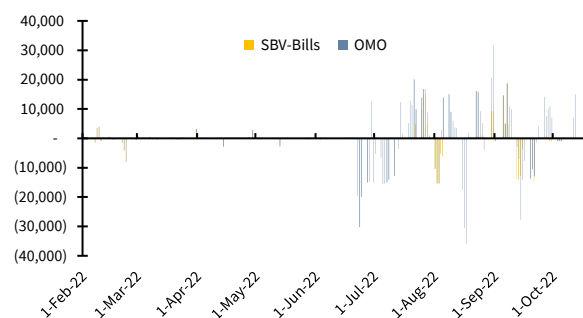
Source: KB Securities Vietnam

Fig 41. Vietnam – Foreign exchange reserves (USDbn)



Source: Bloomberg, KB Securities Vietnam

Fig 42. Vietnam – Open market operations



Source: Bloomberg, KB Securities Vietnam

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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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