

July 21, 2022

2H22 macro outlook

Solid inner strength

KBSV's forecasts for Vietnam's economy in 2022 are as follows:

1) **GDP growth should rise 7.2%**, and GDP growth is expected to jump 12.4% YoY in 3Q thanks to the low base in 3Q21 and stably grow in 4Q (+4.2% YoY).

2) **Headline CPI is estimated at 3.8%** for the whole year, which is under the inflation floor of 4.0% given by the Government. The target can be reached as the State Bank of Vietnam's (SBV) moderate supportive monetary policy does not create much pressure on money supply, and the increase in commodity prices and pump prices is expected to slow down.

3) **Deposit interest rate should be up 0.5 –1.0%**. Lending interest rates also tended to inch up, but lower than deposit interest rates (about 0.4–0.7%) in the context of rising inflation and recovering credit demand in the opening economy. The SBV should keep the policy rate unchanged, with no change in the base scenario, and the target credit growth may reach 14%, equivalent to the rise in 2021.

4) **The USD/VND exchange rate should gain modestly by 2–2.5%** given consistent supplies of the USD.

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I. Vietnam macro outlook in 2022

Vietnam economy in the first six months of the year showed signs of recovery in most sectors. Some industries such as processing & manufacturing and services grew even stronger than the period prior to the Coronavirus pandemic.

We expect that Vietnam's macro stability will remain until the end of the year. The motivations should come from promoted disbursement of public investment capital, the rebound in domestic consumption and manufacturing & processing activities, boosted exports thanks to FTAs, and steady FDI inflows despite more inflationary pressures and exchange rate pressure. KBSV believes that the USD/VND exchange rate and inflation will remain manageable under the Government's target cap.

The risks of inflation and global economic recession may hinder the growth of Vietnam economy in the future.

Table 1. Vietnam – 2022F macroeconomic indicators

KBSV's forecasts				
	Unit	1H22	Apr 2022	Jul 2022
GDP growth	% YoY	6.42	6.3	7.2
Headline CPI	% YoY	2.44	3.8	3.8
Credit growth	% YTD	9.35*	14	14
Refinance rate	%/annum	4	4	4
USD/VND exchange rate	VND	23,280	23,000	23,400

Source: KB Securities Vietnam

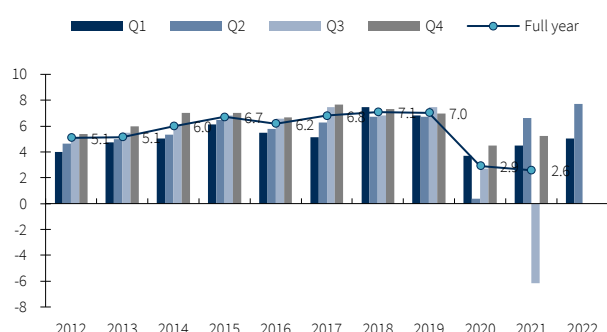
Date: As of June 30, 2022

II. 1H22 Macro highlights

1. GDP growth

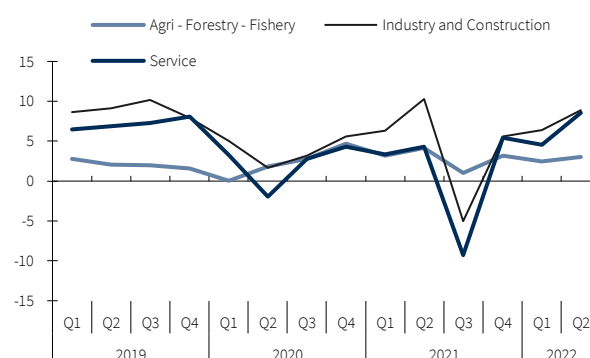
The General Statistics Office (GSO) estimated 1H22 GDP gained 6.42% YoY, higher than the growth rate of 5.74% in 1H21 and 2.04% in 1H20, which indicates that the economy is gradually recovering after two years of being affected by the pandemic.

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

Consumption growth rebounded significantly

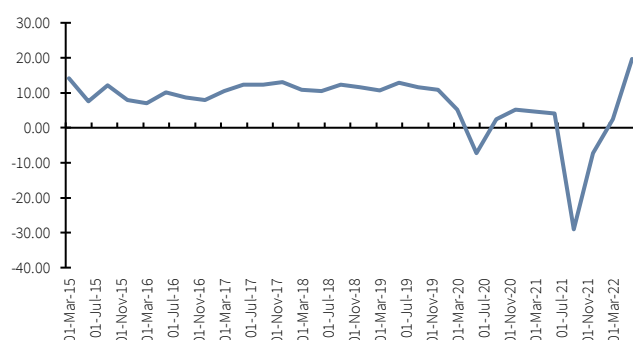
From the demand side, consumption, private investment and FDI all prospered.

Final consumption expenditure in the first six months was 6.06% higher than that of the same period last year, reflecting a clear recovery in the economy. Retail sales of goods and services in 1H22 reached VND2,717 trillion, up 11.7% YoY, and the scale and growth rate were higher than the same period in the last five years, up 14.4% compared to the same period in 2019 (before the Coronavirus outbreak), thanks to the main contribution from retail sales of goods reaching VND2,173.2 trillion, up 11.3% YoY.

Total social investment recorded an impressive gain

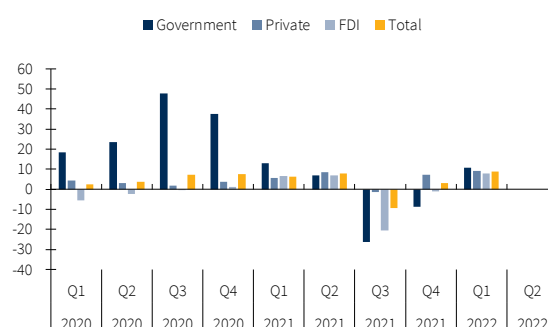
Total social investment in 1H22 gained 9.6% YoY to VND1,301.2 billion, of which investment in private sector was VND739.3 trillion (+9.9% YoY), public sector VND328.4 trillion (+9.5% YoY), and FDI VND233.5 trillion (+8.9% YoY) – reaching the highest level compared to the first six months of 2018–2022. This is an important driving force to the first half and the whole year of 2022.

Fig 3. Vietnam – Retail sales of goods and services (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 4. Vietnam – Social investment capital (%YoY)



Source: General Statistics Office, KB Securities Vietnam

From the supply side, industrial & construction sector and service sector maintained the recovery momentum since the beginning of the year (Figure 2).

Industry and construction continue to prosper

Industrial & construction continued to hit a strong growth of 7.07% YoY in 1H22. To be more specific, the industrial sector surged 8.48% YoY, driven by the manufacturing industry (+9.66% YoY, adding 2.58ppts to the overall GDP growth).

The Index of industrial production (IIP) in the first six months of 2022 spiked 8.7% YoY and recorded growth in 61 provinces and cities across the country.

Service sector increased as many service activities gradually recovered

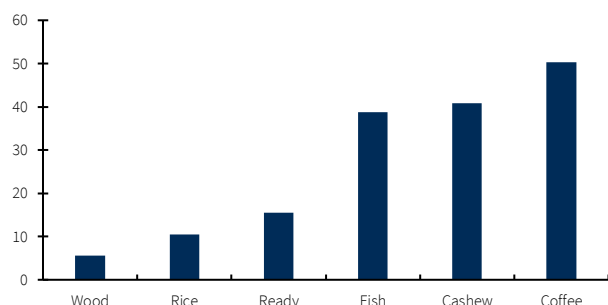
Service sector gained 6.6% YoY as many service activities gradually recovered. Financial, banking and insurance business increased by 9.5% YoY; transportation and warehousing were up 8.13%; wholesale and retail rose 5.82% YoY. In particular, the accommodation and food services sector bounced back with a growth of 11.19% YoY after Vietnam reopened tourism activities in the “new normal” after the Covid-19.

Agriculture, forestry and fishery sector remained stable despite unfavorable weather conditions

Agriculture, forestry and fishery sector rose 2.78% YoY despite unseasonal weather in 2Q. Livestock production is rebounding in spite of difficulties of high animal feed prices. Fish and seafood processing also showed a strong rebound, and exports of pangasius and shrimp increased sharply thanks to high demand and low supply in major foreign markets.

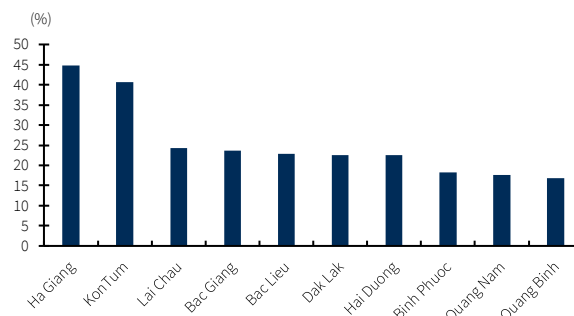
Export turnover of a number of agricultural products in the first half of the year gained, which helped to maintain the growth of the whole sector (Figure 5).

Fig 5. Vietnam – 1H22 growth of agriculture, forestry & fishery products (%YoY)



Source: General Department of Customs, KB Securities Vietnam

Fig 6. Vietnam – 10 provinces with the highest IIP growth rate in 1H22 (%)



Source: General Statistics Office, KB Securities Vietnam

2. Inflation rate

Inflation pressure rose again

Headline CPI in 1H22 rose 2.44% YoY. The inflation rate tends to climb on post-Covid high demand for raw materials for production while the supply chain is congested due to 1) military conflict between Russia and Ukraine and 2) China's Zero Covid strategy that imposes lockdowns over major cities, ports and border gates, making global goods prices gain sharply.

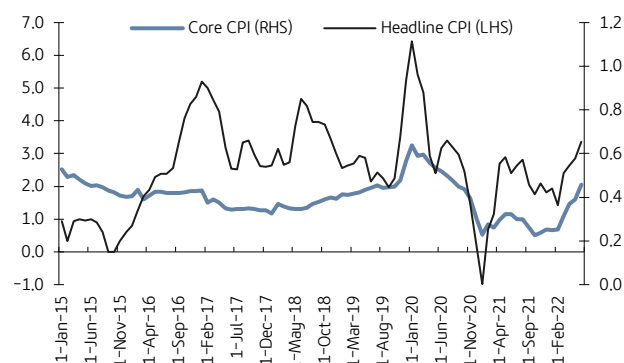
1H22 core inflation moved in line with headline inflation and rose 1.25% YoY.

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

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

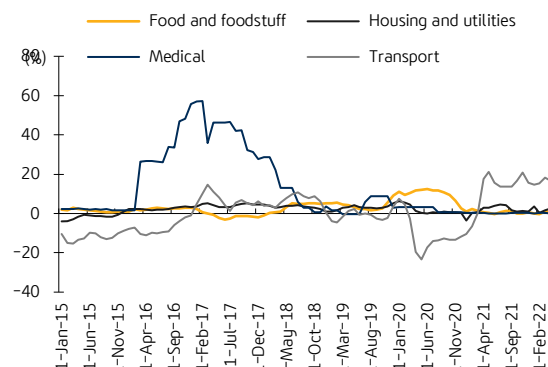
- 1) Food prices fell 0.4% YoY, causing headline CPI to drop 0.08ppts;
- 2) Construction materials prices increased 7.95% YoY since the prices of cement, iron, steel and sand went up with higher input materials prices, making headline CPI rise 0.16ppts;
- 3) Domestic pump prices spiked 51.83% YoY, raising headline CPI by 0.38ppts;
- 4) Educational services prices slowed by 3.56% YoY, pushing headline CPI down 0.19ppts as some provinces and municipalities exempted and cut tuition fees from the first semester of the 2021–2022 school year due to the Covid-19.

Fig 7. Vietnam – Headline and core CPI (%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. Policy rate & monetary policy

The SBV kept the policy rate unchanged

In the first six months of 2022, the State Bank of Vietnam kept the policy rate unchanged, maintain low-cost capital, and create conditions for credit institutions to maintain low lending interest rates to support the economy. According to the SBV, by the end of June, credit growth reached 9.35% YTD (vs 6.47% YTD in 1H21), reflecting an increase in capital absorption of the economy when production activities has returned to normal.

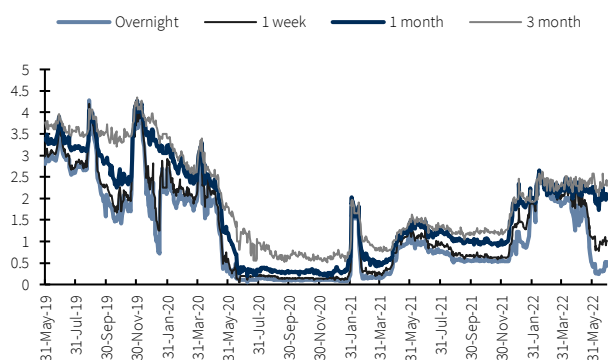
Interbank interest rates fell sharply for all terms

By the end of June, interbank interest rates dropped sharply for all terms, especially overnight interbank interest rates that fell to near the low base of 2021. Overnight, one-week and one-month interest rates decreased by 136bps, 102bps and 21bps respectively compared to the end of March – the peak of liquidity crisis, which implies there is more cash in the system.

Deposit rates tended to increase

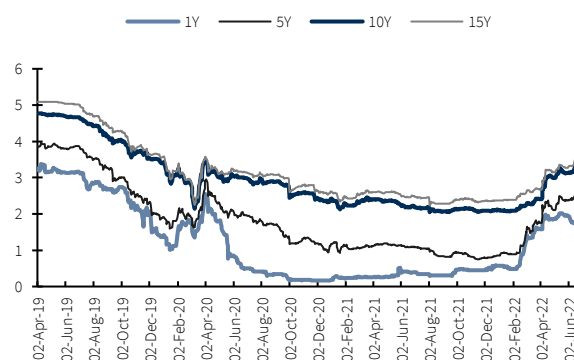
2Q deposit rates tended to increase for both short and long terms as banks' liquidity was under pressure when credit demand rose. However, the increase slowed down in June when the credit growth of commercial banks reached the credit ceiling granted by the SBV. Small banks showed a modest increase in deposit rates (ranging from 0.5 to 1%), while state-owned banks have a relatively narrow fluctuation (< 0.5%).

Fig 9. Vietnam – Interbank interest rates (%YoY)



Source: Bloomberg, KB Securities Vietnam

Fig 10. Vietnam – Government bond yields (%YoY)



Source: Bloomberg, KB Securities Vietnam

4. USD/VND exchange rate

Interbank USD/VND exchange rate increased to 23,282 (+2.1%YTD)

At the end of June, the interbank rate increased to 23,282 (+2.1% YTD) amid wobbly international market and high demand for USD as a haven currency. The DXY index rose to 104,738 points (+9.5% YTD) (Figure 14) thanks to two supportive factors: 1) Geopolitical risks between Russia and Ukraine and 2) tightened monetary policy of major central banks to curb inflation, raising concerns about an economic recession. Accordingly, the SBV has managed the exchange rate flexibly and stabilized it via the sale of foreign currencies to supplement the foreign currency supply to the market. According to our estimates, the SBV has sold about USD11-12 billion through three-month USD forward contracts.

In addition, the gap between domestic VND and global USD narrowed down to negative levels, sometimes even dropped to -1.2% for overnight term, which put more pressure on USD/VND exchange rate as the demand for USD continued to rise (when borrowing VND to buy USD, buyers will benefit from the interest rate difference between these two currencies and the exchange rate increase when the Fed raises interest rates). By the end of June, the SBV restarted the treasury bill channel with a large volume after nearly two years of freezing (the total value of bills in circulation was VND107,640 billion) in order to raise the interbank interest rate, narrow the interest rate gap between VND and USD, and reduce the need to own USD in the system (Figure 13).

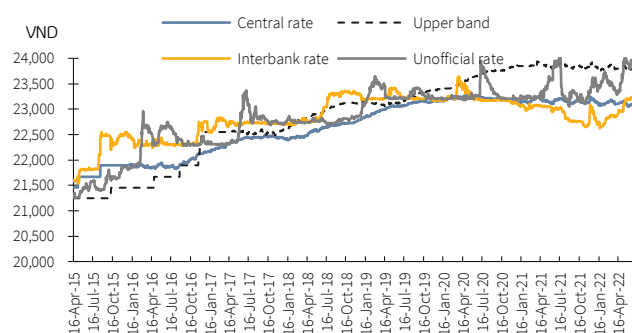
Unofficial exchange rate surged as the gap between domestic and international gold prices widened

The unofficial exchange rate increased sharply when the gap between domestic and international gold prices once widened to VND18.0 million/tael, which also triggered gold smuggling (the gap was VND17.0 million/tael on June 30). The USD/VND unofficial rate increased 1.5% YTD to VND23,940 by the end of June.

The NEER and REER tended to surge

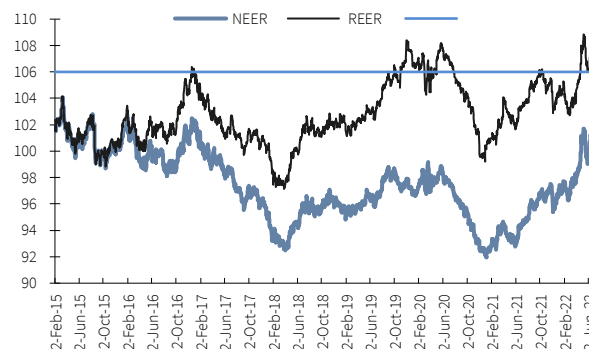
The nominal effective exchange rate (NEER) and the real effective exchange rate (REER) showed a sharp increase (Figure 12). NEER increased by 4.74% YTD and REER increased by 3.53% YTD on June 30 (in line with the VND appreciation against a basket of currencies of trade partners). NEER increased mainly due to strong USD appreciation, while REER increased more slightly as domestic CPI in the first six months of the year was lower than that of other peers. Unlike the period 2015-2016, technically when the REER line crossed the 106 threshold, the SBV adjusted the VND devaluation to cushion exports from negative impacts. However, as inflationary pressure in the second half of the year is quite strong, we believe that SBV will continue to make efforts to stabilize the VND (despite negative effects on exports) by selling foreign currencies and issuing bills.

Fig 11. Vietnam – USD/VND exchange rate (VND)



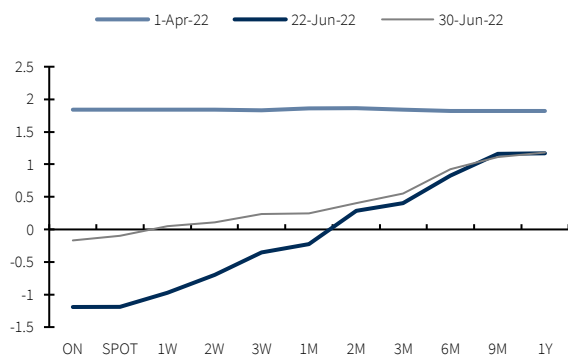
Source: Bloomberg, KB Securities Vietnam

Fig 12. Vietnam – NEER & REER (points)



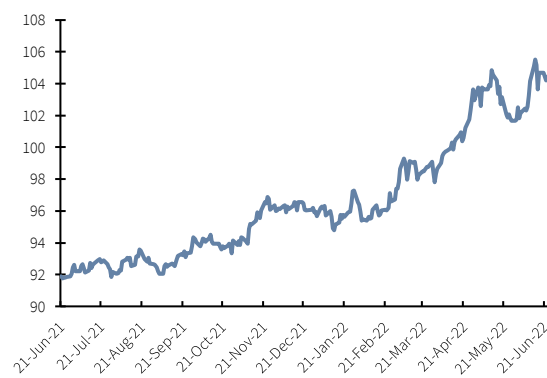
Source: Bloomberg, KB Securities Vietnam

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

III. 2022F macroeconomic outlook

1. 2022F GDP growth

Growth in 2022 is forecast to reach 7.2%

We raise GDP growth forecast for 2022 from 6.3% to 7.2% with the expectation that GDP growth will jump 12.4% YoY in 3Q thanks low base level of 3Q21 and maintain stable growth (+4.2% YoY) in 4Q. Factors supporting GDP growth include: 1) Public investment, 2) more FTAs to benefit exports, 3) stable FDI inflows, 4) strong domestic consumption, and 5) China's easing of social distancing measures.

On the other hand, high global inflation and the risk of economic recession are unpredictable factors restraining Vietnam's economic growth via exports, production, and domestic inflation. Therefore, we will continue to watch the two factors closely and update regularly.

Table 2. Vietnam – Economic packages in 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

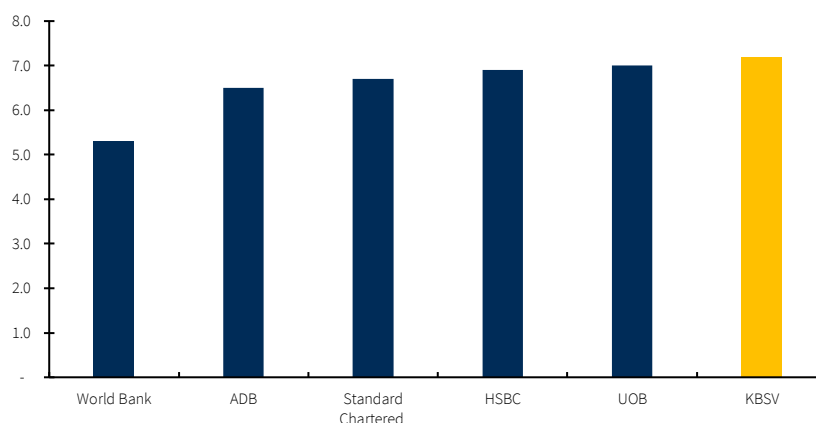
Source: Government statement, KB Securities Vietnam

Table 3. Vietnam – Details of the 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 (%)



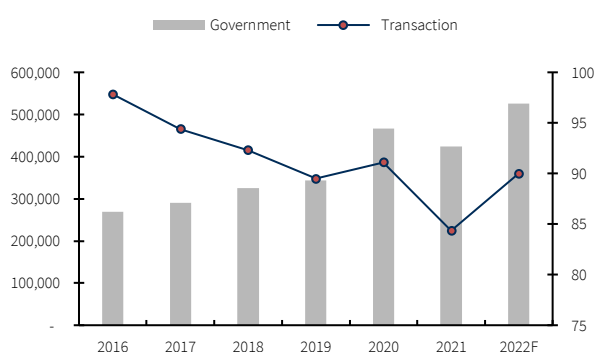
Source: HSBC, World Bank, Asian Development Bank, United Overseas Bank, Standard Chartered, KB Securities Vietnam

Public spending should be the driving force for the economic growth

Disbursement of public investment showed positive signals in the first half of the year with investment capital disbursed from the State budget capital estimated at VND192.2 trillion (+10.1% YoY), equaling 35.3% of the whole year plan.

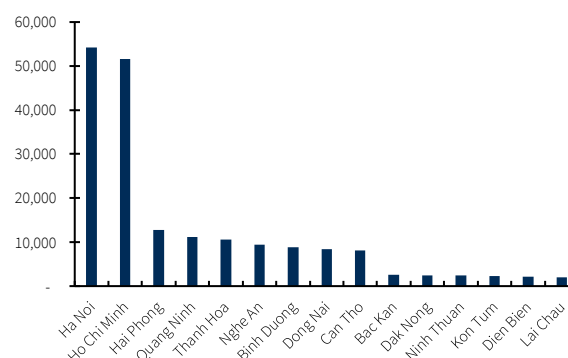
Public spending should be the driving force for economic recovery. The General Statistics Office estimated that if public investment increases by 1% YoY, GDP will inch up 0.058%. Therefore, the Government took more drastic and effective measures to speed up the disbursement of public spending and promptly handle bottlenecks, ensuring the disbursement rate reaches 100% under Dispatch 126 and Directive 01 dated February 8, 2022. Besides, the State Treasury is also more flexible in controlling capital expenditure with two mechanisms: (1) Control first, disburse later; and (2) Disburse first, control later, and shorten the time for capital payment to speed up the disbursement for the economic rebound and avoid the end-of-the-year rush for disbursement.

Fig 16. Vietnam – Disbursement of public spending (VNDbn)



Source: General Statistics Office, KB Securities Vietnam

Fig 17. Vietnam – 2022E budget allocation (VNDbn)



Source: Government Report, KB Securities Vietnam

Exports may be under enormous pressure in the second half of the year

In the first six months of 2022, Vietnamese export turnover of goods reached USD186.03 billion (+17.3% YoY). Data from the General Department of Customs also show that most traditional exports to major trading partners recorded strong growth compared to the same period in 2021 (Figure 17). The drivers of Vietnam's export growth in 2022 include:

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

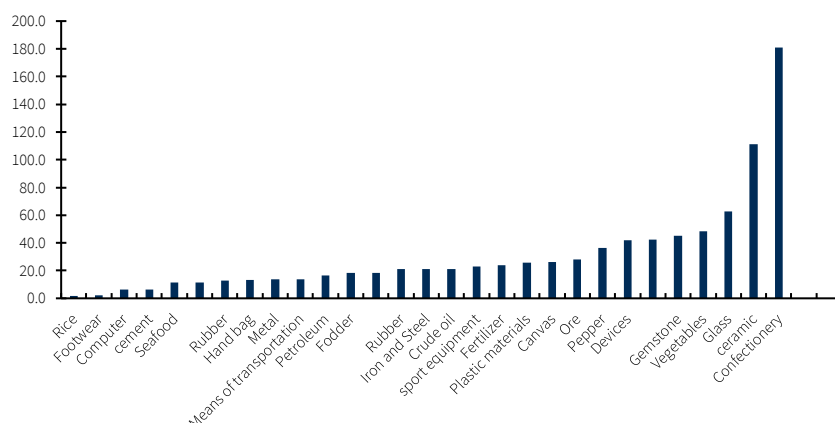
On the other hand, we assess that Vietnam's export turnover in the second half of this year will be under more pressure because: (1) Exports of foreign-invested enterprises (FIEs) may shrink due to dwindling demand in major export markets (Figure 18). Specifically, USD82.5 billion, or 43% of Vietnam's total import and export turnover, was primarily machinery, equipment, and electronic components of FIEs. However, Samsung, which accounted for 50% of the export value of electronic products, is shrinking production, reducing the number of workdays from five to three days a week and encouraging vacations for factory workers in Vietnam; (2) The prices of key products such as agricultural, forestry and fishery products, rice, steel would not witness sharp increases as previously and may even decrease in the time ahead amid abundant supplies; and (3) The appreciation of the VND against the currencies of trading partners in line with stronger USD can make Vietnam's exports less competitive (Figure 12).

Table 4. 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
CPTPP	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.		

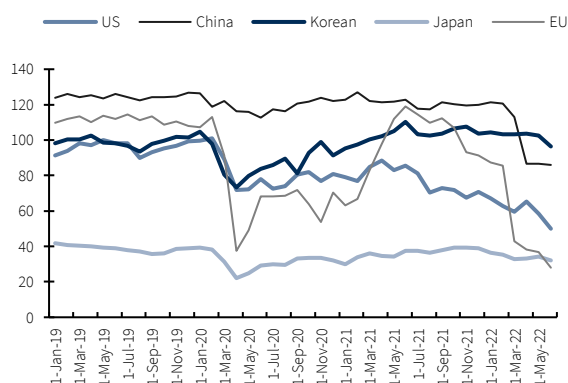
Source: KB Securities Vietnam

Fig 18. Vietnam – Export growth of goods in 1H22 (%)



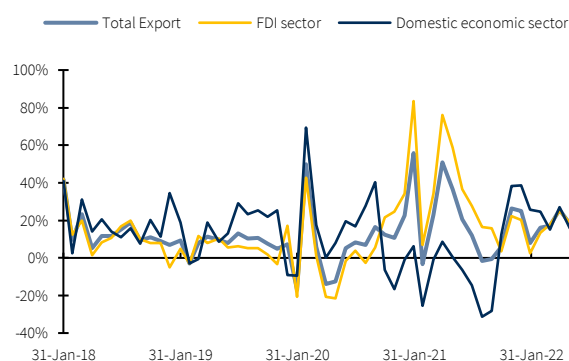
Source: General Department of Customs, KB Securities Vietnam

Fig 19. Vietnam – Consumer confidence index of major trading partners (%)



Source: Google, KB Securities Vietnam

Fig 20. Vietnam – Export growth across sectors (%YoY)



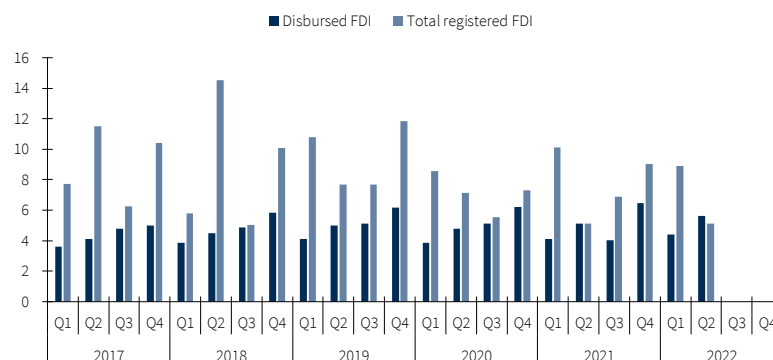
Source: Fiinpro, KB Securities Vietnam

FDI should continue to flow 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 improve in 2022 for the following reasons: (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; and (2) Vietnam remains an attractive destination thanks to plenty of signed FTAs, favorable geographical location, abundant and low-wage labor market, financial support policies, etc.

Over the first six months of this year, disbursed FDI hit USD10.058 million (+8.9% YoY). Meanwhile, registered FDI reached USD14,030 million, down 8.1% compared to the 1H21 highs, given the contributions from two registered projects worth USD4.41 billion. The positive point is that additional registered capital grew strongly to USD6,820 million (+65.6%), and capital contribution and share purchase rose to USD2,270 million (+41.4% YoY), reflecting foreigners' confidence in the business environment and diversified supply chains in Vietnam.

Fig 21. Vietnam – Disbursed and registered FDI (USDmn)

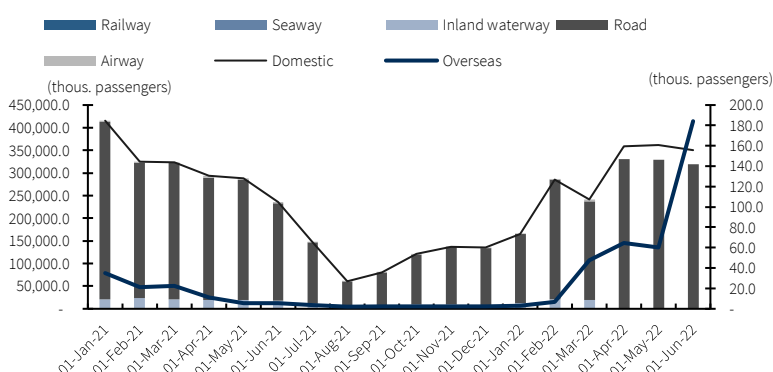


Source: Ministry of Planning and Investment, KB Securities Vietnam

Domestic consumption continued its strong recovery

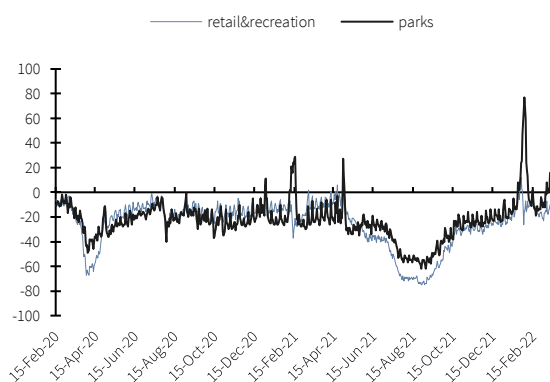
We expect the recovery of the hotels, catering, and tourism sector in 2H22, helped by: (1) The rise in domestic and international visitors (Figure 22) in line with increased mobility to shopping malls & amusement parks (Figure 23); and (2) bigger number of Chinese visitors after the lifting of lockdowns in China.

Fig 22. Vietnam – Domestic and international tourist arrivals (thousand people)



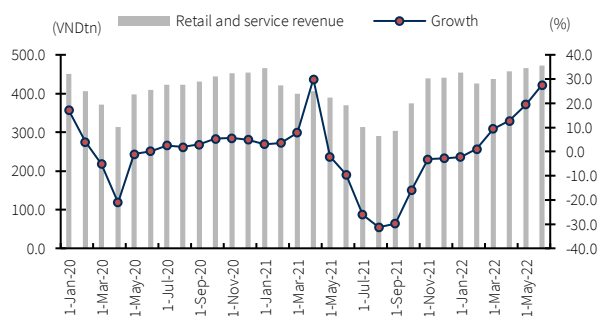
Source: General Statistics Office, KB Securities Vietnam

Fig 23. Vietnam – Mobility to retail shopping malls & amusement parks (%)



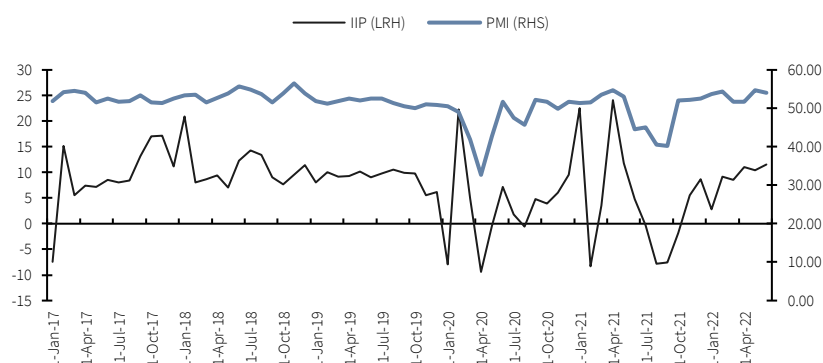
Source: Google, KB Securities Vietnam

Fig 24. Vietnam – Total retail sales of goods and services (VNDtn)



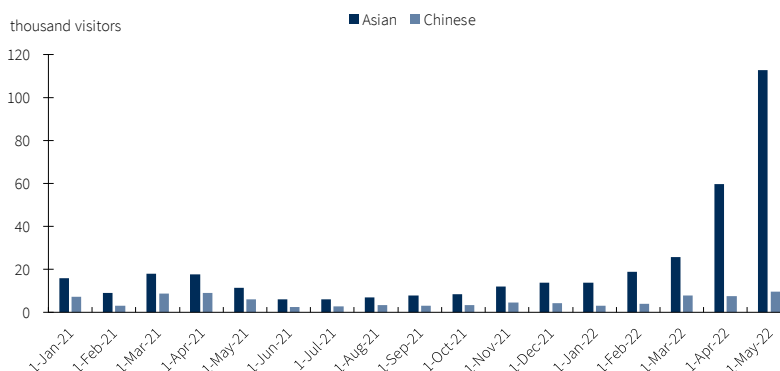
Source: Fiiopro, KB Securities Vietnam

Fig 25. Vietnam – IIP & PMI



Source: General Statistics Office, HIS Markit, KB Securities Vietnam

Fig 26. Vietnam –Asian and Chinese visitors by month (thousand people)



Source: General Statistics Office, KB Securities Vietnam

China's easing of lockdowns will help remove bottlenecks in the global supply chain and boost import-export activities between Vietnam and China

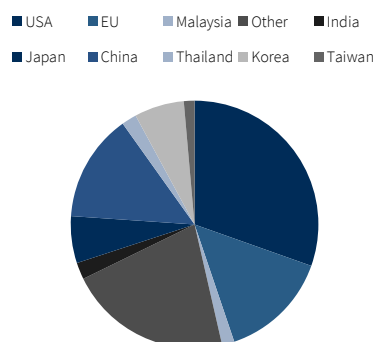
The number of COVID-19 cases in China progressively decreased from its peak of 9,000 infections/day in mid-April to more than 100 cases/day at the end of May. Thus, the Chinese Government gradually lifted social distancing measures, helping to remove bottlenecks in the global supply chain and boost import-export activities between Vietnam and China. Also, it is a driving force for the recovery of Vietnamese tourism.

Soaring inflation and risks of the global economic recession may restrain Vietnam's economic growth

Inflation and the risk of global economic recession remain unpredictable, which can restrain economic growth across the globe because: (1) The geopolitical tensions between Russia and Ukraine have shown no signs of cooling down, causing disruptions in the world supply chains and surging prices of necessities, agricultural products, and energy; (2) Central banks of major countries in the world are raising rates rapidly in the most widespread tightening of monetary policy for more than two decades; and (3) Consumer demand in Vietnam's main trading partners, the US and the EU, tends to decline due to the rising risk of economic recession, which can become a big challenge for export activities of Vietnam.

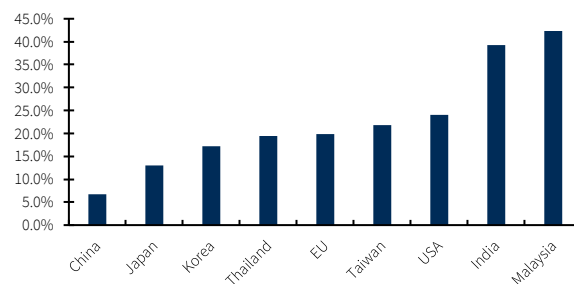
In our base case scenario (2H2022 Strategy Report), the probability of a ‘soft landing’ for the US economy is more than 50%. Accordingly, inflation will not surge in the time ahead, and interest rates will approach 3–3.25% by the end of 2022. Besides, the US economy is strong enough to withstand interest rate hikes without dragging into a recession.

Fig 27. Vietnam – Exports to foreign markets (%)



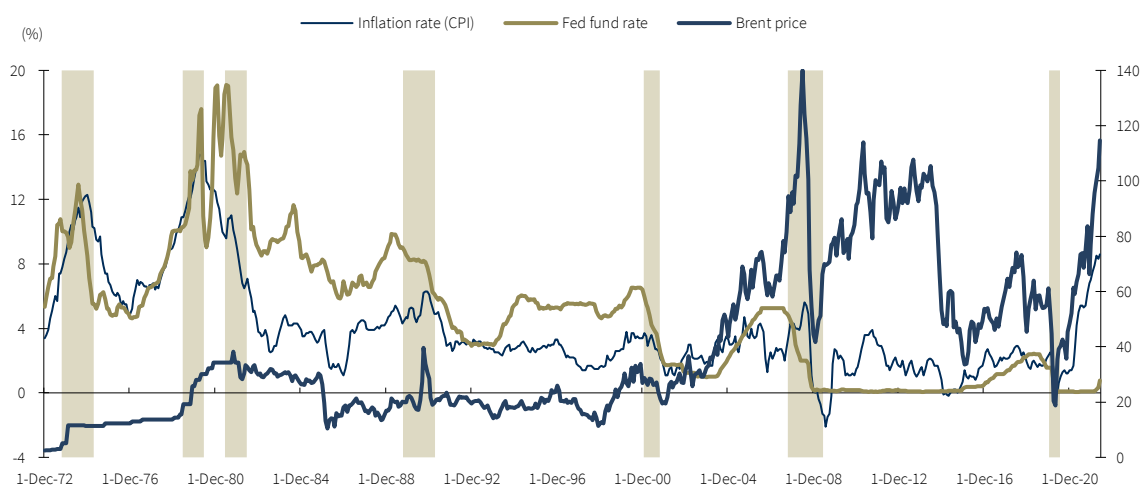
Source: General Department of Customs, KB Securities Vietnam

Fig 28. Vietnam – Export growth to foreign markets (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 29. US – Inflation rate, Fed funds rate, oil prices (% , USD/bbl)



Source: Bloomberg, KB Securities Vietnam

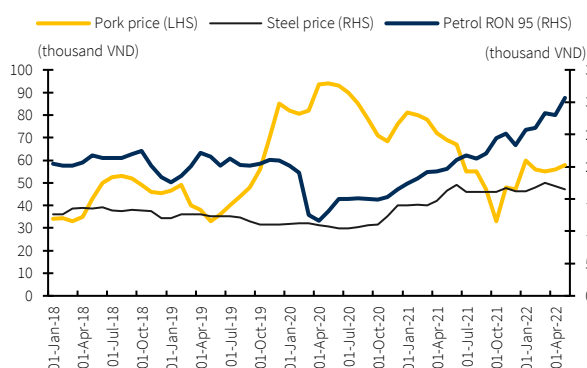
Note: The highlighted area is the time period of recession

2. 2022F inflation rate

Despite intensified inflation pressures in 2022, we expect Vietnam's inflation rate to remain manageable at under 3.8% for the whole year 2022, helped by: (1) supportive monetary policy of the State Bank that helps stabilize the M2 money supply and alleviate pressure on inflation; (2) stable prices of domestic commodities, especially gasoline, thanks to the Government reducing the environmental protection tax rates and proposals to cut excise tax and value-added tax on petroleum in case of continued increases in global oil prices.

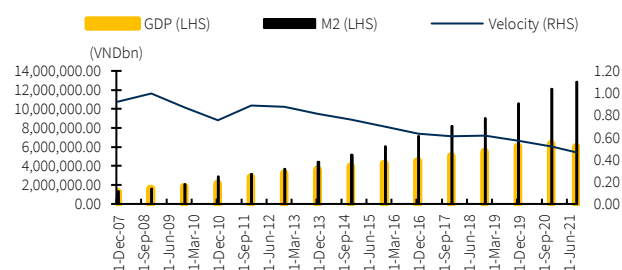
We believe inflation pressures will increase in the coming months due to rising pork prices from the current lows before easing at the end of this year amid the recovery of domestic demand and global commodity price increases, given the disappearance of ‘latency’.

Fig 30. Vietnam – Commodity prices (thousand VND/kg)



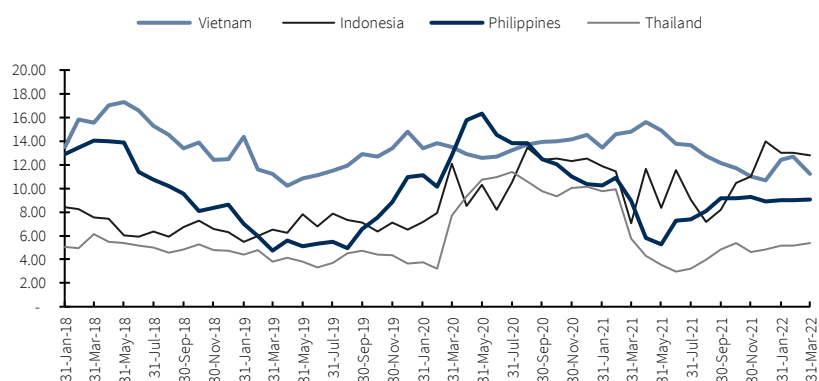
Source: Vietnam Livestock Association, Hoa Phat Group, PVOil, KB Securities Vietnam

Fig 31. Vietnam – M2, GDP, velocity of money (VNDbn)



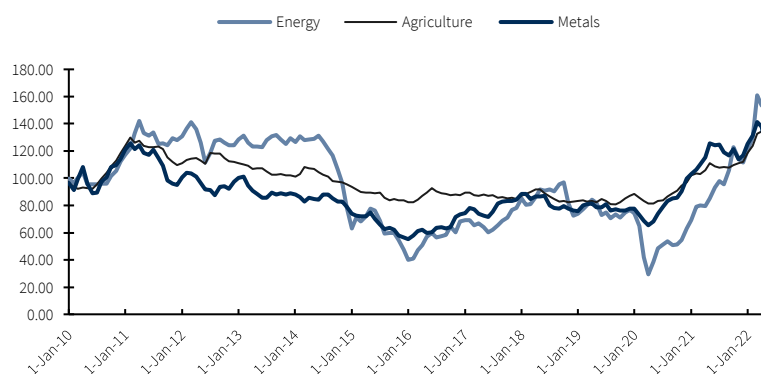
Source: Bloomberg, KB Securities Vietnam

Fig 32. Asia – M2 money supply (%YoY)



Source: KB Securities Vietnam

Fig 33. Global – Commodities prices (USD)



Source: World Bank, KB Securities Vietnam

M2 money supply increased steadily by 12–14% YoY

In our view, the negative impact of the monetary policy on inflation is limited by the flexible monetary policy of the SBV that helped the M2 money supply maintain its increase between 12% and 14% YoY (Figure 32).

The Government prioritizes stabilizing domestic gasoline prices in the face of spiraling fuel prices

Domestic gasoline and oil prices heavily depend on world fuel prices, which have surged and continuously hit new highs over the past few months due to Russia's war in Ukraine. However, we expect the Government's high priority to stabilize domestic gasoline prices by reducing the green tax, and proposals to cut excise tax & value-added tax on finished products would curb oil price increases.

Pork prices would rise to VND65,000–70,000/kg

We forecast that pork prices would rise to VND65,000–70,000/kg thanks to the recovering demand amid dwindling supply due to slow re-herding in early 2022. It was attributable to high bran costs and low hog prices, causing hesitation in re-herding among farmers. However, pork prices will unlikely reach their peak in 2020 given the Government's priority to enhance domestic supply.

Table 5. 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 may maintain the expansionary monetary policy to a certain extent

In the base case scenario where core inflation is up 3.8% & there is no more oil price shock, **the SBV may continue the expansionary monetary policy to a certain extent, given high inflation and exchange rate fluctuations.**

Accordingly, the SBV would keep policy rates unchanged and the credit growth target of 14%, equivalent to 2021's, instead of tightening the monetary policy as the general trend of global central banks.

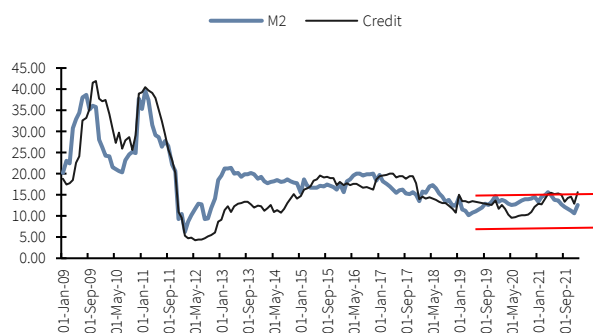
Deposit rates will likely inch up 0.5%–1.0% in 2022

In our estimates, deposit rates will likely inch up in the second half of 2022 due to: (1) Banks' raising deposit rates to keep real interest rates positive and attractive enough to maintain the competitive advantage amid rising inflation; and (2) growing credit demand in the wake of the economic recovery. Deposit rates will likely increase marginally by 0.5%, corresponding to the base case scenario where inflation rises by 3.8%.

Lending rates may grow in line with deposit rates

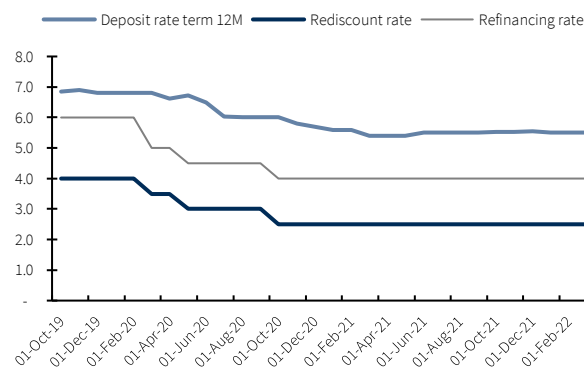
Lending rates will tend to increase in line with deposit rates. However, the increase may range by only 0.4–0.7% since the Government encourages the banking system to cut interest rates to aid pandemic-hit businesses.

Fig 34. Vietnam – M2 & credit growth (%)



Source: State Bank, KB Securities Vietnam

Fig 35. Vietnam – Deposit & policy rate (%)



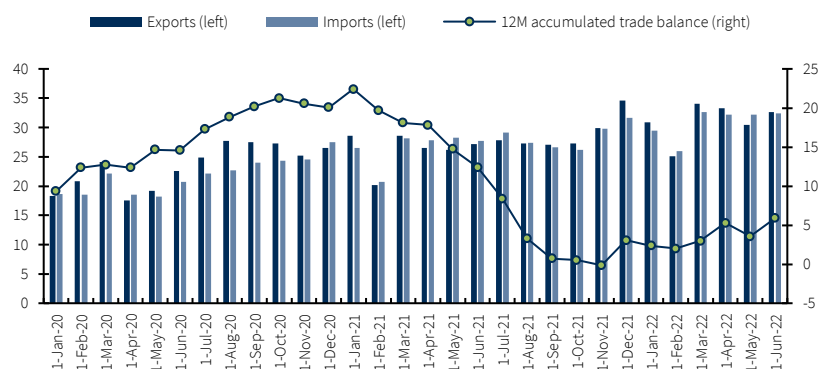
Source: State Bank, KB Securities Vietnam

4. 2022F USD/VND exchange rate

The USD/VND exchange rate is forecasted to expand by 2% when USD supply is stable

We forecast the USD/VND exchange rate to expand by 2% in 2022, given the stronger USD and ample USD supply thanks to enhanced export activities and returns on FDI and remittances into Vietnam. Specifically, exports of key products increased in both volume and prices in the first six months of this year. We, therefore, believe that Vietnamese enterprises will continue to enhance exports to capitalize on preferential tariffs under FTAs in the coming months to bring in a large amount of foreign currency. In addition, the World Bank (WB) and the Global Knowledge Partnership on Migration and Development (KNOMAD) ranked Vietnam eighth in the world and third in the Asia-Pacific region concerning remittance inflows. Therefore, we expect remittances into Vietnam to maintain growth of 5–7% in 2022. Besides, disbursed FDI is forecasted to be stable with improved investor confidence following Vietnam's reopening for international trade as analyzed in the 2022F GDP growth.

Fig 36. Vietnam – 6M22 imports & exports

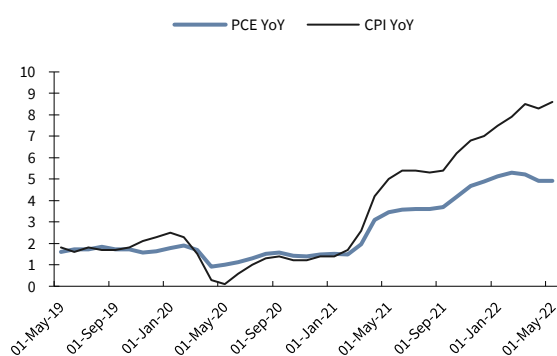


Source: Fiinpro, KB Securities Vietnam

In the short term, the SBV will continue to use foreign exchange reserve and issue treasury bills to stabilize the exchange rate

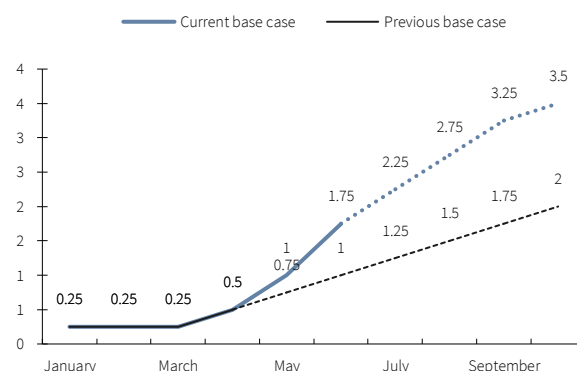
In the short term, we believe that the SBV will continue to use foreign exchange reserve (Figure 39) and issue treasury bills on open market operations to stabilize the USD/VND exchange rate against unfavorable external factors (major central banks' rate hikes, tightened monetary and fiscal policy).

Fig 37. US – 2019A–2022A CPI, PCE (%)



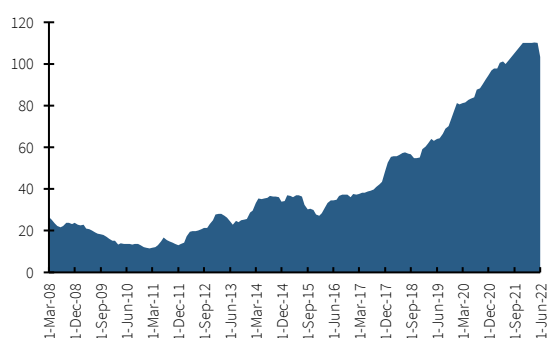
Source: Bloomberg

Fig 38. US – Expected rate hikes in the base case scenario (%)



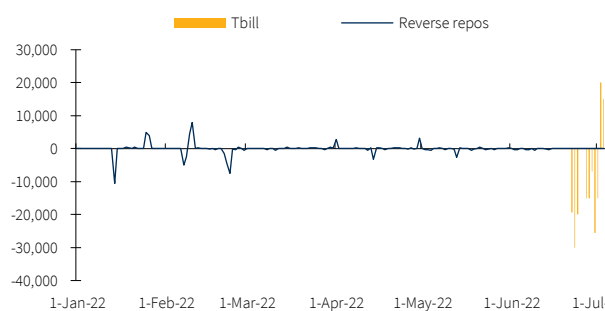
Source: KB Securities Vietnam

Fig 39. Vietnam – Foreign exchange reserve (USDbn)



Source: Bloomberg, KB Securities Vietnam

Fig 40. Vietnam – Open market operations



Source: Bloomberg, KB Securities Vietnam

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Investment ratings & definitions

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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