

Macro outlook in 2H23

Driven by supportive policies

KBSV's main forecasts for Vietnam's economy in 2023 are as follows:

- 1) **GDP growth in 2023 is forecasted to increase by 5%** (downgraded from 5.4% in the previous report). Supportive factors include: (i) Boosted public investment, (ii) the State Bank of Vietnam's (SBV) easing monetary policies and economic support measures, (iii) rebounding domestic consumption thanks to stimulus policies, and (iv) the expectation that FDI disbursement would maintain 2022 speed.
- 2) **The average CPI in 2023 is estimated at only 2.8% YoY**, much lower than the 4.5% target set by the Government, thanks to its slow growth in the first half of the year (+0.7% YTD). CPI may increase in the second half of the year due to: (i) A potential 5% gain in oil prices, (ii) a likely 2–3% rise in construction materials prices, (iii) an increase in pork prices (up to VND65,000/kg by the end of the year), and (iv) rising prices of some state-managed commodities (like educational tuition, electricity and water) and higher basic salary.
- 3) **The average 12-month deposit rate should be around 6.2%, and the average 12-month lending rate may be 9.5%**. The SBV may continue to lower policy interest rates by 50bps in 2H23.
- 4) **USD/VND exchange rate should increase 2% to around VND24,100** when SBV implements monetary policy in the opposite direction with the Fed.

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I. Executive Summary

Economic growth slowed down markedly in the first half of 2023. The agriculture, forestry, fishery and service sectors remained stable, while the industrial and construction sector became weaker (growing by a mere of 1.13% YoY), reflecting the adverse impacts from less goods orders amid unfavorable international macro environment and subdued real estate market.

In the second half of 2023, we expect the positive signals of the macro economy will return thanks to the main driving force from the Government's accelerating disbursement of investment capital, the SBV's loosening monetary policy, and the recovery of domestic consumption following stimulus policies (VAT reduction and basic salary increase). However, the risk of a global economic recession still casts a shadow over exportation and manufacturing, causing a sharp drop in consumer demand from the main trading partners.

Macro stability and economic support policies will still be the focus in the coming period. KBSV believes that inflation and exchange rate movements in 2023 will be under the Government's control.

Table 1. Vietnam – Macro targets for 2023

	Unit	KBSV's forecasts			
		1H23	Jan 2023	Apr 2023	Jul 2023
GDP growth	% YoY	3.7	6	5.4	5
Average CPI	% YoY	3.3	3.15	4.1	2.8
Credit growth	% YTD	3.6	14	14	12.5
12-month average deposit rate	%/year		6.7	6.7	6.2
Exchange rate	VND		23,450	23,500	24,100

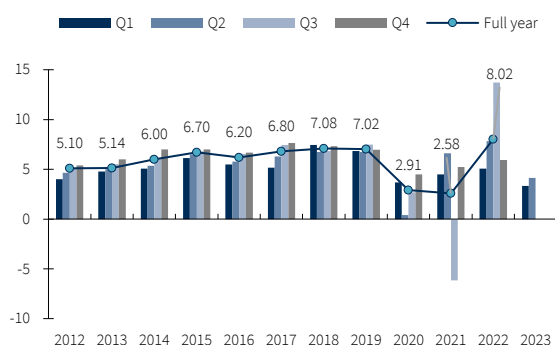
Source: KB Securities Vietnam

II. GDP growth

1. 1H23 GDP growth

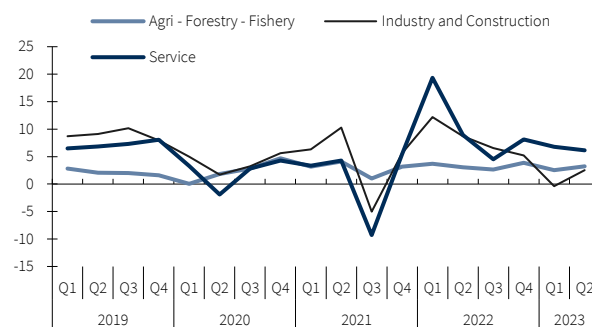
According to data from the General Statistics Office (GSO), GDP in the first six months of 2023 is estimated to inch up 3.72% YoY, slightly higher than the COVID-induced record low of 1.74% growth rate in 1H20. Although the macro data have improved somewhat in 2Q, the overall outlook for the economy is gloomy, worsened by the adverse construction industry amid weak domestic demand, slow and uneven global economic growth, the spectre of economic recession in some countries, and frozen housing market.

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



Source: General Statistics Office, KB Securities Vietnam

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



Source: General Statistics Office, KB Securities Vietnam

From the demand side, consumption growth slowed down, and social investment was boosted.

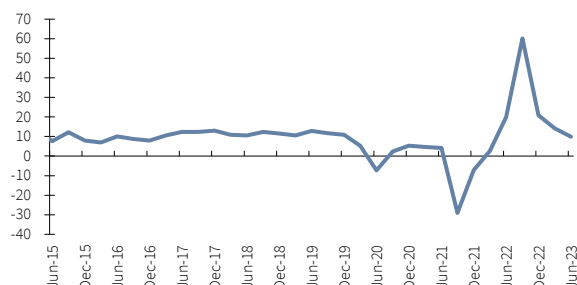
Consumption growth slowed down

Final consumption growth in the first six months of 2023 reached 2.68% YoY, reflecting weak domestic demand. Trade and service activities prospered with the total retail sales of goods and services reaching VND3,016.8 trillion, up 10.9% YoY in 1H23. However, the increase in June was only 6.5% YoY (vs 15.5% in February), showing that the growth rate has been plunging since the beginning of the year (Figure 3). In which, the retail sales of goods in 6M23 hit VND 2,377.2 trillion (up 9.3% YoY); and tourism increased by 65.9% YoY, benefiting from the opening of China and the high number of international visitors to Vietnam.

Social investment was promoted

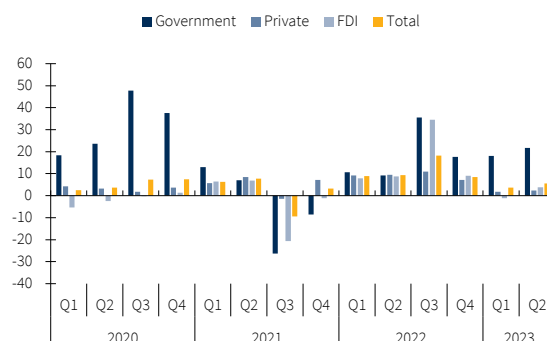
Total social investment capital in 1H23 rose 4.7% YoY to VND1,357.7 trillion, of which, the private sector's contributed VND751.9 trillion (up 2.1% YoY), FDI VND235.4 trillion (up 1.7% YoY), and the state sector VND232.2 trillion (up 20.5% YoY). This showed the Government's determination and efforts in promoting public disbursement to boost the economy.

Fig 3. Vietnam – Retail sales & services revenue growth (%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 sectors were weak but had positive signals, while the agriculture, forestry and fisheries sector and the service sector were flat (Figure 2).

Industry and construction sector recovered slowly

The growth of the industrial and construction sector in 1H23 was relatively low at 1.13% YoY. The industrial sector gained 0.44% YoY, the lowest YoY growth rate in 2011–2023. Of that, the main industry processing & manufacturing grew by a mere of 0.37%, lower than the general growth rate of the whole industry. This is the main factor leading to the slow recovery in this sector. The IIP in 1H23 dropped 1.2% YoY with 48 localities recording an increase in IIP and 15 localities posting downward IIP. 2Q23 IIP improved QoQ, showing that although industrial production declined YoY, there were positive impacts from the cooling of raw material prices and efforts to boost the economy from the Government.

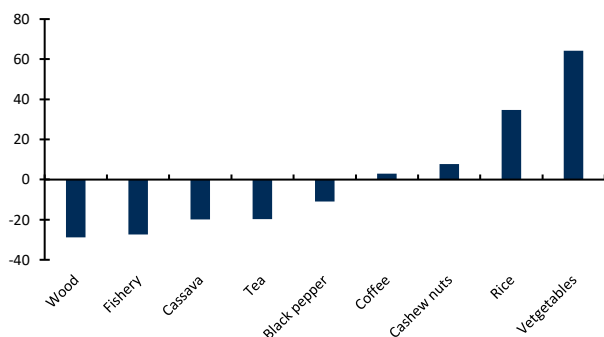
The service area is gradually recovering positively

The service sector advanced 6.33% YoY as the Government implemented policies to stimulate domestic consumption and tourism demand. Accordingly, wholesale and retail increased by 8.49%; transportation, warehousing rose 7.18%; financial, banking and insurance activities gained 7.13%; and hospitality and food services spiked 15.14%, benefiting from the opening of China and the increase in the number of international visitors to Vietnam.

The agriculture, forestry and fishery sector remained stable

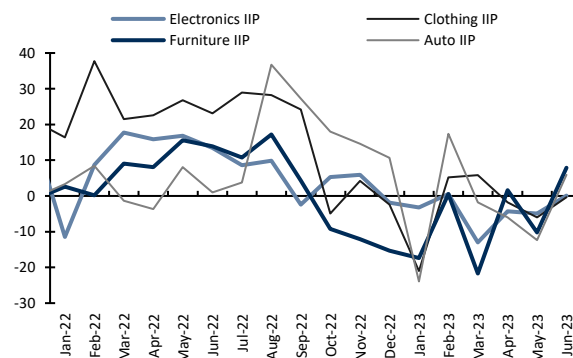
The agricultural, forestry and fishery sector remained stable at 3.07% YoY, fully meeting domestic and export demand. The yield of winter-spring rice was quite good, and the output of some perennial crops mainly increased compared to the same period last year. The poultry production also achieved stable growth, and fisheries posted positive results. However, the export of wood and fisheries products sharply fell due to the decline in demand from the US and EU markets (Figure 5).

Fig 5. Vietnam – Export growth of agri-wood-fisheries products (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 6. Vietnam – The growth of some major industries (%YoY)



Source: General Statistics Office, KB Securities Vietnam

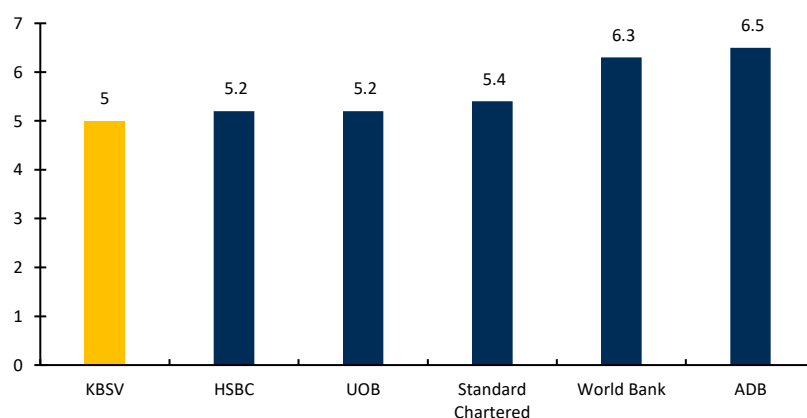
2. 2023F GDP growth

2023 GDP growth is forecast to reach 5%

We lowered our forecast for 2023 GDP growth to 5% (downgraded from 5.4% in the previous report). Supportive factors include: (i) Boosted public investment, (ii) the State Bank of Vietnam's (SBV) easing monetary policies and economic support measures, (iii) rebounding domestic consumption thanks to stimulus policies, and iv) the expectation that FDI disbursement would maintain 2022 speed.

In the opposite direction, exports are expected to continue to be gloomy due to the weakening of the US and EU economies, besides that, the domestic real estate market is still quiet and there is no clear signal of recovery in the second half of the year, which are risk factors that restrain GDP growth.

Fig 7. Vietnam – 2023 GDP growth forecasts by KBSV and banks (%)



Source: Bank's statements, KB Securities Vietnam

Table 2. Vietnam – Economic support packages 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: Government, 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

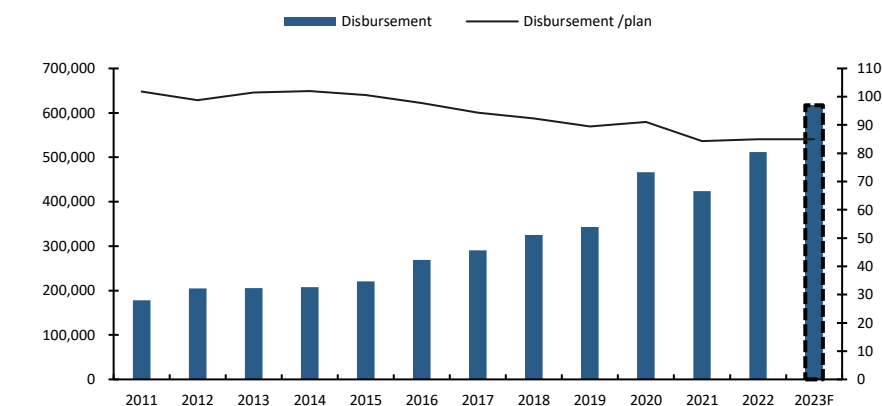
Source: Decree 31/2022

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 1H23 reached VND232.2 trillion (up 21.3% and equal to 33% of the plan assigned by the Government). This disbursement progress is positive as it continues to increase month by month and should be accelerated in the last two quarters of the year.

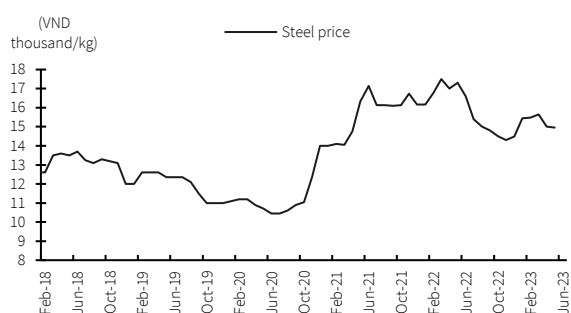
Public investment plan for 2023 includes a total capital of over VND700,000 billion, an increase of about 25% compared to the plan in 2022, which shown the determination of the Government in promoting public investment. However, the disbursement rate in 1H23 is still lower than the same period last year (35.2% in 1H22) mainly due to problems in preparation and site clearance. Accordingly, we believe that the disbursement rate in 2023 is likely to be equivalent to 2022 (reaching 85% of the target). To achieve this target, VND384.9 trillion should be disbursed in the second half of the year (increasing 1.66 times compared to 1H23). As the plan set out this year is higher than last year, completing 85% of the plan is also a big challenge and requires many drastic and timely measures from the Government. The positive point is that we have many favorable factors to promote public investment for 2023, including: 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 – Public capital disbursement progress (VNDbn)



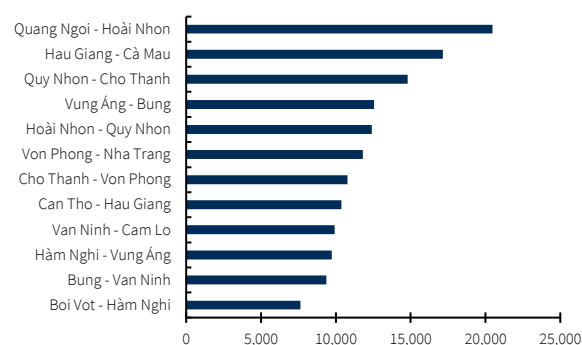
Source: General Statistics Office, Ministry of Finance, KB Securities Vietnam

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



Source: FiinPro, KB Securities Vietnam

Fig 10. Vietnam – Total investment of sub-projects of the North-South expressway – phase 2 (VNDbn)



Source: General Statistics Office, KB Securities Vietnam

Table 4. Vietnam – Key public investment projects

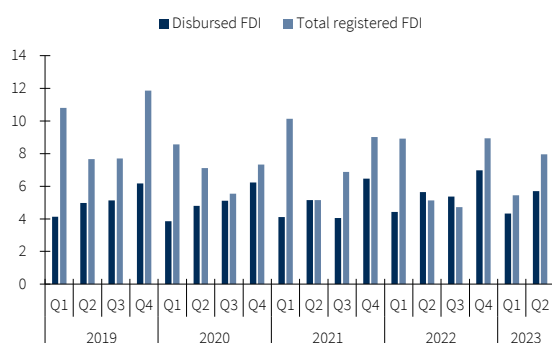
Projects	Total investment (VNDbn)	Disbursement from the State budget (VNDbn)	Expected disbursement during 2021–2025 (VNDbn)	Stimulus packages in 2022–2023 (VNDbn)
Expressway	273,973	262,969	74,251	92,634
The east sections of the North – South Expressway (Phase 2)	146,990	146,990	47,169	72,476
Bien Hoa – 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 capital should continue to flow into Vietnam would thanks to stable exchange rates

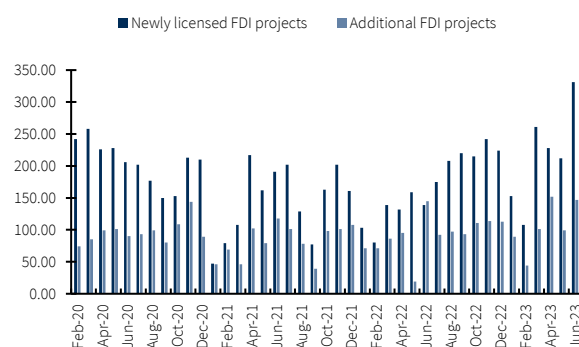
Total registered foreign investment capital into Vietnam as of June 20 fell 4.3% YoY to USD13.4 billion due to (i) concerns over global economic recession that made foreign investors more cautious in registering new FDI; (ii) the sagging production and business activities of large FDI enterprises in Vietnam in line with decreasing demand; and (iii) increasing geopolitical tensions which make many large countries move production bases and capital back to the country or cooperate with neighboring partners to ensure the supply chain. However, the number of projects is increasing (Figure 12), reflecting that FDI enterprises that have invested in Vietnam are gradually recovering and expanding their production and business activities. Besides, FDI disbursement in 6M23 hit USD10.02 billion, rising 0.5% YoY thanks to relatively stable exchange rates. We expect FDI inflows in 2023 will continue to be stable thanks to Vietnam's good inflation control, macroeconomic stability, and supportive fiscal and monetary policies.

Fig 11. Vietnam – FDI capital over the years (USDmn)



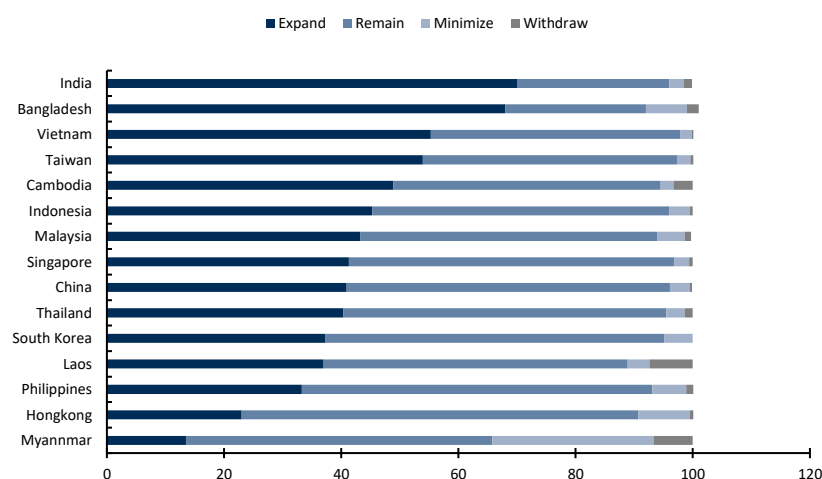
Source: Ministry of Planning & Investment, KB Securities Vietnam

Fig 12. Vietnam – The number of newly licensed and additional FDI projects (project)



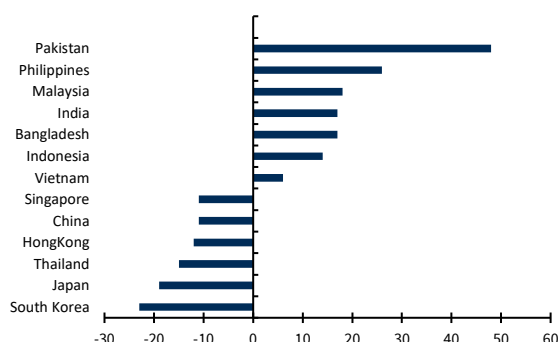
Source: Ministry of Planning & Investment, KB Securities Vietnam

Fig 13. Asia – Survey on business orientation in 2022–2023



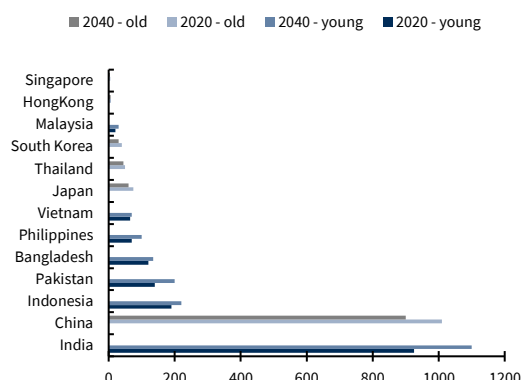
Source: JETRO, KB Securities Vietnam

Fig 14. Asia – Forecast changes in working age in 2020–2040 (%)



Source: Natixis, United Nations, KB Securities Vietnam

Fig 15. Asia – Population in working age in 2020–2040 (million people)



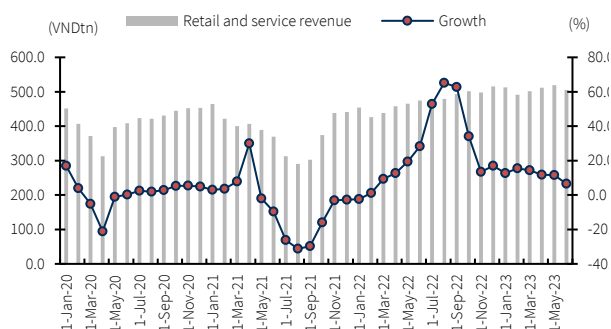
Source: Natixis, United Nations, KB Securities Vietnam

Retail & services should grow thanks to rebounding tourism and domestic consumption stimulus policies

We expect the tourism and restaurant service industries to continue to be active. In the first six months of the year, international arrivals to Vietnam were estimated at nearly 5.6 million, 9.3 times higher than the same period last year but equal to only 65.7% of 2019's arrivals. This implies that tourism has not yet completely recovered to the pre-Covid-19 levels, so the room for strong rebounds in 2H23 is large. It is highly likely that this year, the tourism industry will achieve and even beat the target of 110 million arrivals, bringing in VND650 trillion in revenue or 6.4% of total GDP for the whole year.

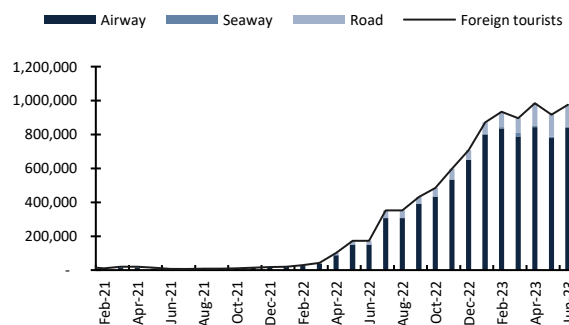
In addition, we believe that although domestic demand is still weak and the growth rate of retail sales of goods is slowing down quickly, the consumer demand stimulus policies of the Government and the State Bank (such as reducing VAT from 10% to 8%, increasing basic salary to 20.8%, lowering policy rates, and boosting public investment) will take effect by the time the retail sector recovers strongly in 4Q23. Accordingly, retailing is expected to bounce back strongly in the coming time and become one of the growth forces of the economy.

Fig 17. Vietnam – Total retail sales & sales growth (VNDtn, %)



Source: General Statistics Office, KB Securities Vietnam

Fig 18. Vietnam – Foreign tourists to Vietnam (arrival)

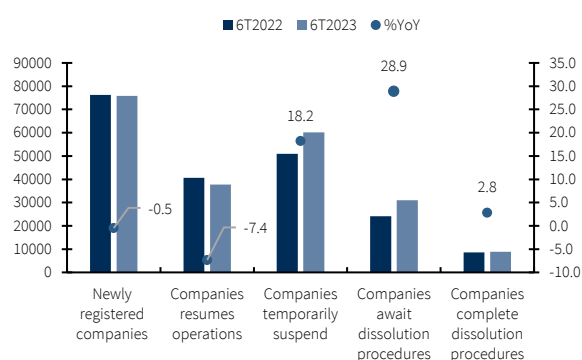


Source: General Statistics Office, KB Securities Vietnam

Easing monetary policy in favorable conditions (lower interest rates) should be a motivation to economic growth

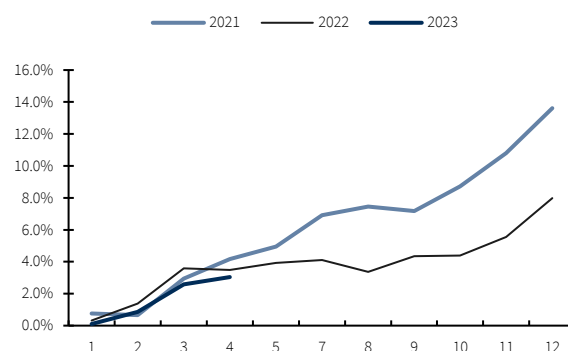
The economic situation was not very positive in the first months of the year mainly due to weak domestic demand, lowered but still high interest rates (which did not really benefit the market, causing credit growth in the first six months of the year to be at a record low level, 3.6%), and weakening business and production conditions of enterprises. In 1H23, the number of enterprises suspending business and businesses waiting for dissolution procedures increased by 18.2% YoY and 28.9% YoY respectively, followed by a sharp decrease in registered capital (down by 20% YoY). We expect that the SBV's efforts to loosen monetary policy when inflation is cooling down, and the lending interest rate may drop further with a decrease of 1.8% – 2.3% YTD, should help to stimulate credit growth and support loans for businesses, thereby creating a driving force for the economy.

Fig 18. Vietnam – The number of businesses in 1H23 (unit)



Source: General Statistics Office, KB Securities Vietnam

Fig 19. Vietnam – Credit growth (%YTD)



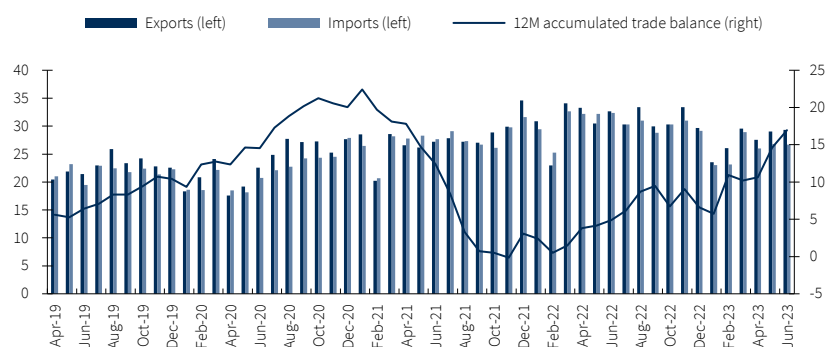
Source: State Bank of Vietnam, KB Securities Vietnam

Exports are expected to remain gloomy due to the weakening of the US and EU economies

Statistics about exports have gradually improved compared to the first months of the year. Export turnover in 2Q alone reached USD83.4 billion, up 2.9% QoQ, showing that policies to stimulate trade and support businesses are gradually taking effect. However, in general, export activities still declined sharply compared to last year as Vietnam's export turnover of goods in 1H23 reached was down 12.1% YoY to USD164.45 billion. Agricultural crops increased sharply over the same period – rice (+34.7%), vegetables and fruits (+64.2%), but accounted for a low proportion in total GDP. In contrast, Vietnam's key commodities all showed a decline over the same period (Figure 22). The main reason is the global economic slowdown, causing a sharp drop in demand in major export markets like the US (-22.6% in import volume from Vietnam), the EU (-10.1%), and China (-2.2%).

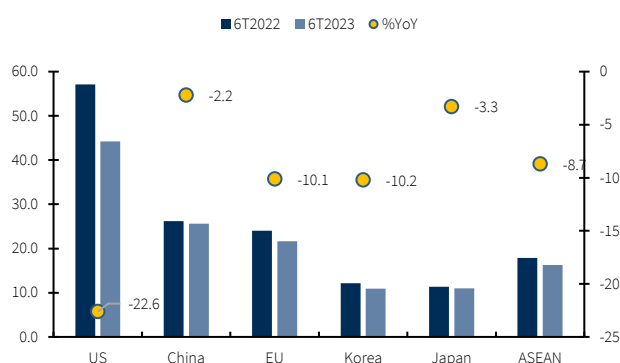
In the last six months of the year, Vietnam's exports are less likely to show obvious recovering signs when the economies of Vietnam's major trading partners, the US and the EU, are assessed to be less positive. In particular, the EU has just experienced a technical recession in the first two quarters of 2023, while the probability of the US falling into a recession in the next 12 months is still high at 60% (according to Bloomberg consensus).

Fig 20. Vietnam – Import-export turnover and the trade balance (USDbn)



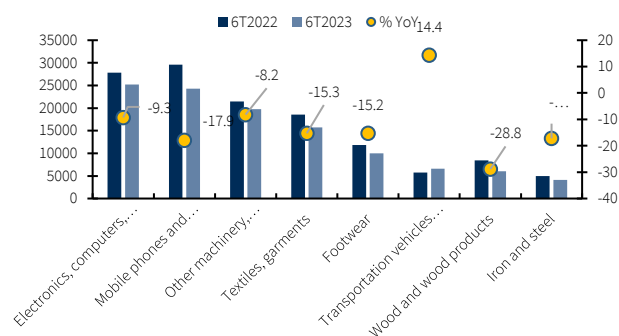
Source: General Statistics Office, KB Securities Vietnam

Fig 21. Global – Export turnover by country (USDmn)



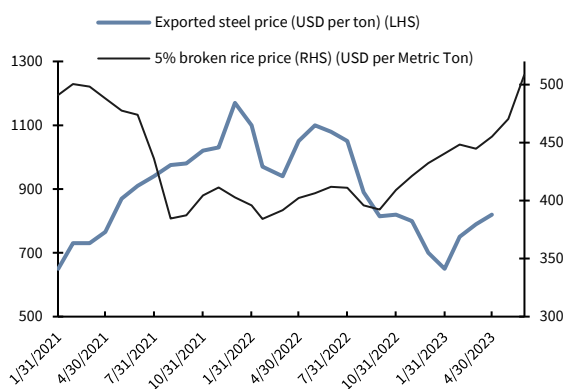
Source: Ministry of Industry and Trade, KB Securities Vietnam

Fig 22. Global – Export turnover by commodity group (USDmn)



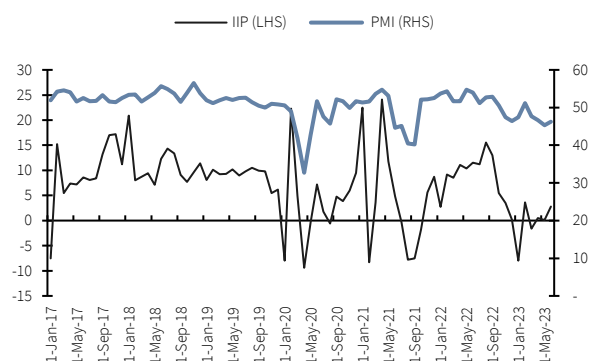
Source: General Statistics Office, KB Securities Vietnam

Fig 23. Vietnam – Steel & rice prices for export (USD per Ton, USD per Metric Ton)



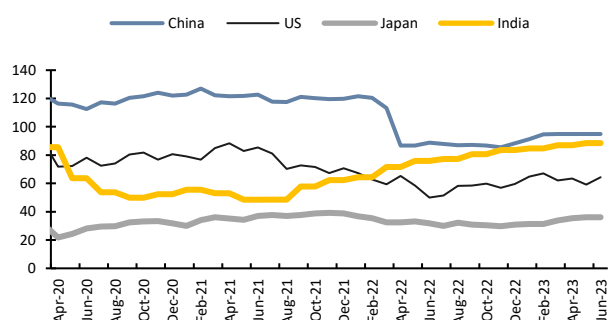
Source: VSA, World Bank, KB Securities Vietnam

Fig 24. Vietnam – IIP & PMI (% point)



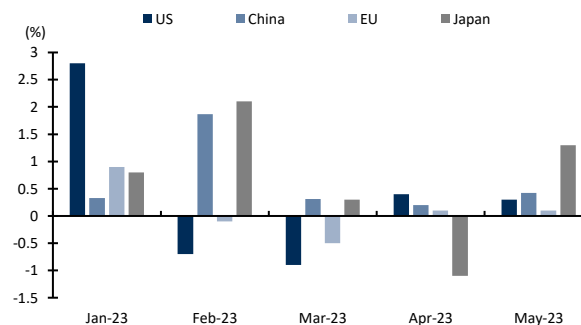
Source: General Statistics Office, KB Securities Vietnam

Fig 25. Global – Consumer confidence index (point)



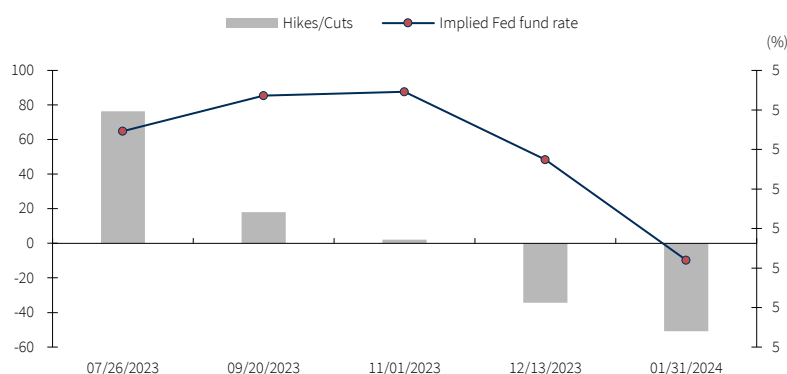
Source: Bloomberg, KB Securities Vietnam

Fig 26. Global – Retail sales growth by month (%)



Source: Bloomberg, KB Securities Vietnam

Fig 27. US – Current implied policy yield curve

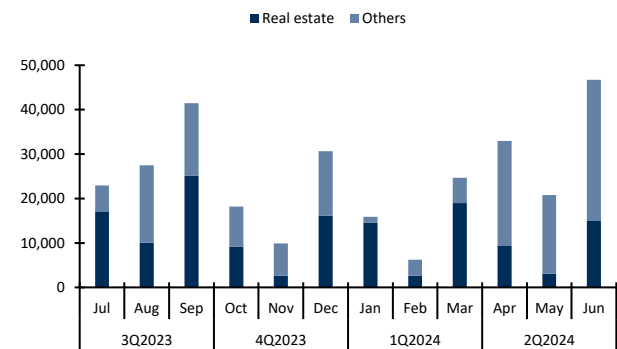


Source: Bloomberg, KB Securities Vietnam

The domestic real estate market continues to be quiet and there is no clear signal of recovery in the second half of the year

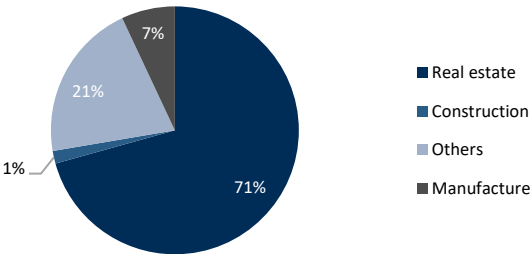
The risks coming from the corporate bond market are still hindering the growth of businesses, especially those in the real estate and construction industries. The second half of 2023 and the whole year of 2024 will be the peak of maturity of corporate bonds, while there have been consecutive events of late payment of principal and interest on bonds recently. This makes it difficult for investors' confidence in the real estate market to recover soon, which negatively affects the business prospects of real estate businesses. The real estate and construction market is closely related to economic growth because it is an influential area covering many business lines. We believe that the real estate market and construction sector are still not able to warm up this year and will be one of the factors that will slow GDP growth in 2023.

Fig 28. Vietnam – Corporate bond maturity value (VNDbn)



Source: HNX, KB Securities Vietnam

Fig 29. Vietnam – Structure of corporate bonds with delayed payment in 2023



Source: HNX, KB Securities Vietnam

III. Inflation

1. 1H23 inflation

Inflation has cooled sharply since the start of the year

Headline CPI increased by 3.29% YoY on average in each of the January–June period. This June only saw a 2% YoY increase, the lowest recorded since March 2022, showing that inflation has cooled significantly against the backdrop of slow economic growth and weak domestic consumption.

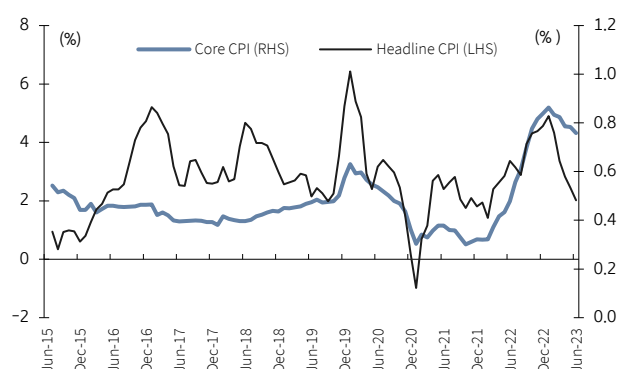
However, core CPI stayed high and has seen a relatively slow decline rate. The 6-month average core CPI expanded by 4.74% YoY.

Construction material, rental, and food prices were key factors contributing to rising headline CPI

The main factors affecting headline CPI in the first six months include:

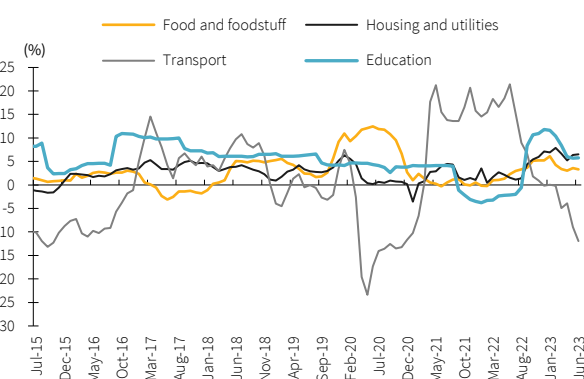
- 1) Housing and construction material prices picked up 6.6% YoY due to rising cement, iron, steel, and sand prices in line with input material costs and high rents, causing CPI to increase by 1.24 pts;
- 2) Prices of food items rose 3.6% YoY, mainly due to surging consumer demand during holidays and the Lunar New Year, making CPI expand by 0.77 pts;
- 3) Education fees advanced 7.95% YoY as some localities have raised tuition fees again, driving CPI to increase 0.49 pts;
- 4) Kerosene prices shrank 8.94% YoY; gasoline prices dropped 18.27% in line with world prices, causing CPI to narrow 0.66 pts.

Fig 30. Vietnam – Core CPI & headline CPI (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 31. Vietnam – Price movements of key sectors (%YoY)



Source: General Statistics Office, KB Securities Vietnam

2. 2023F inflation

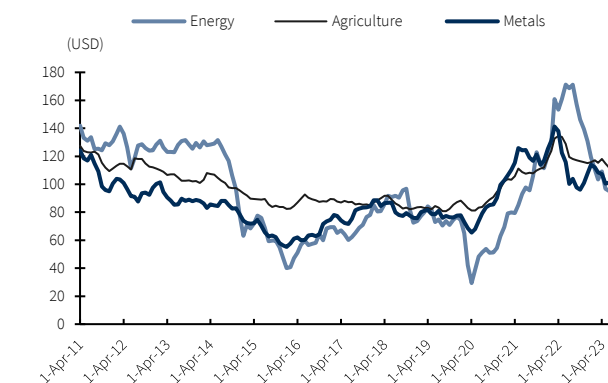
2023F inflation should increase by 2.8% YoY

There are signs that inflation will resurge in the second half of 2023. However, considering low growth (+0.7% YTD or +0.1% MoM on average) in the first half, 2023F inflation should be kept in check well below the target assigned by the government. Specifically, we expect it to rise 2.8% YoY by YE2023, equivalent to a 0.35% MoM increase in each of the June–December period. Our forecast is based upon expected uptrends of oil prices (up 5%), construction material

prices (up 2–3%), hog prices (reaching VND65,000/kg) in the year-end period, and rising tuition fees, electricity, and water prices as well as base salary.

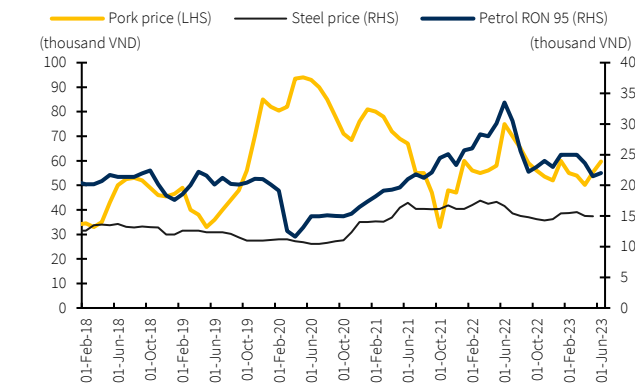
On the bright side, we believe that supportive factors, such as low money supply, a 2% reduction in VAT, a stable import price index, and recovering yet weak domestic aggregate demand, will help slow the rise of inflation.

Fig 32. Global – Prices of necessary commodities (USD)



Source: World Bank, KB Securities Vietnam

Fig 33. Vietnam – Prices of necessary commodities (thousand VND)



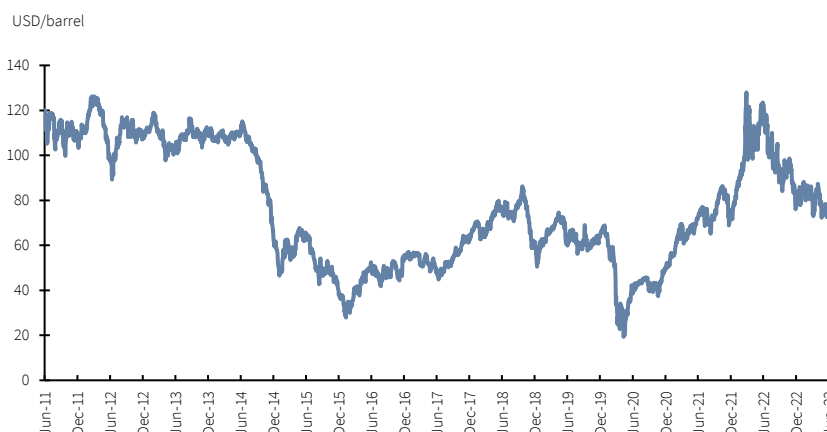
Source: OPEC, KB Securities Vietnam

Brent crude oil may increase slightly and settle at USD82/barrel

Brent crude oil fell to USD77/barrel in early July on waning demand due to recession fears (Figure 34). In the second half of 2023, Brent will likely increase slightly to USD82/barrel, backed by: (i) EIA forecast that further increase in global oil consumption in 2H23 and 2024 coupled with China's economic reopening will boost world oil demand and (ii) Global demand is anticipated to outstrip supply as OPEC+ sticks to its production cut in the context of recession risks.

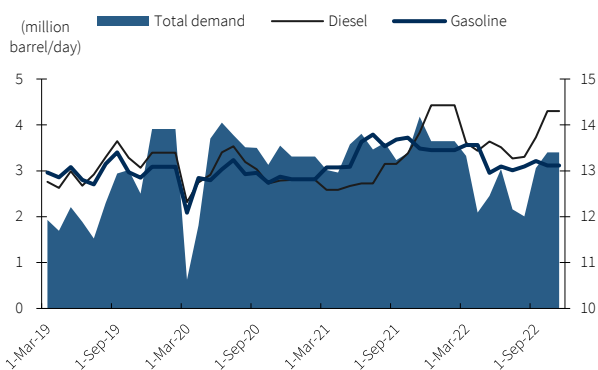
However, we believe the world would not see oil price shocks over the next two years thanks to the stabilization of the energy market (Figure 36) when non-OPEC+ production growth is expected to offset the shortfall in OPEC+ supply in the context that consumption demand is forecast to remain increasing.

Fig 34. Global – Brent crude oil prices (USD/barrel)



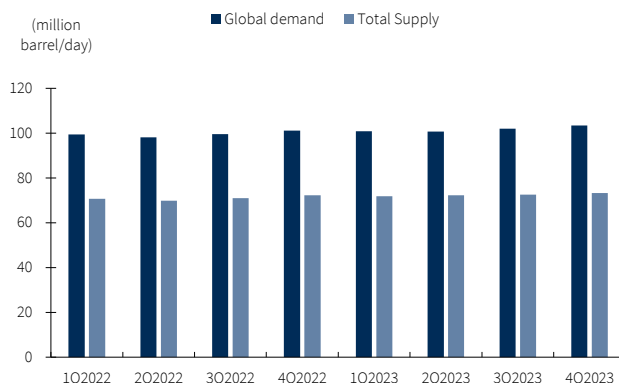
Source: Bloomberg, KB Securities Vietnam

Fig 35. China – Oil consumption (million barrels/day)



Source: Bloomberg, KB Securities Vietnam

Fig 36. Global – Oil supply-demand (million barrels/day)

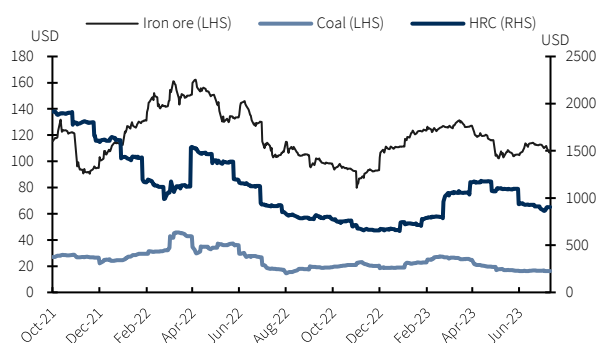


Source: OPEC, KB Securities Vietnam

Construction materials should pick up 2–3% by the end of the year

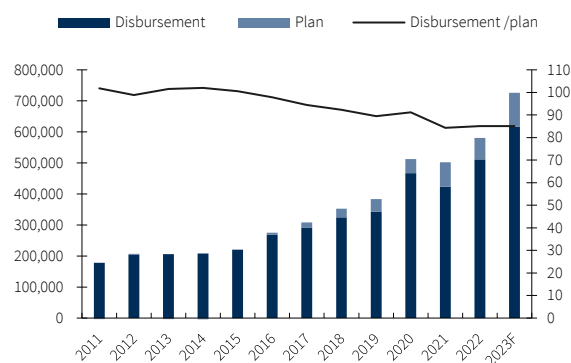
A 25% YoY increase in this year's public spending should stimulate demand for construction materials. However, the recovery will be limited due to: (i) cooling input material prices for steel production (Figure 37); (ii) difficulties facing domestic consumption and export amid frozen local property market and slow growth of leading export markets. Therefore, we assess that construction material prices would rise 2–3% by the end of the year versus current levels.

Fig 37. Global – Iron ore, coking coal, HRC prices (USD/ton)



Source: Bloomberg, KB Securities Vietnam

Fig 38. Vietnam – Public spending (VNDbn, %)

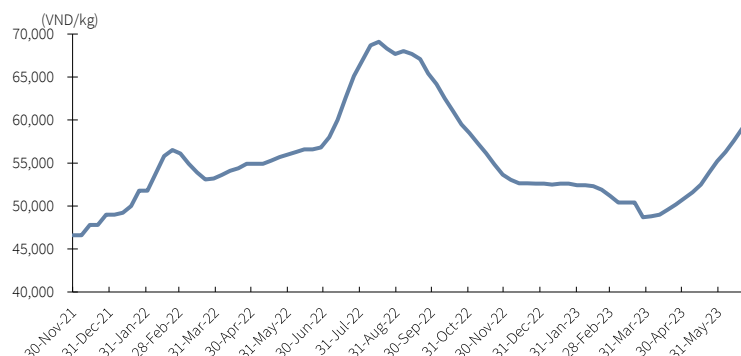


Source: General Statistics Office, KB Securities Vietnam

Liveweight hog should enjoy a minimal increase to settle at VND65,000/kg thanks to recovering demand

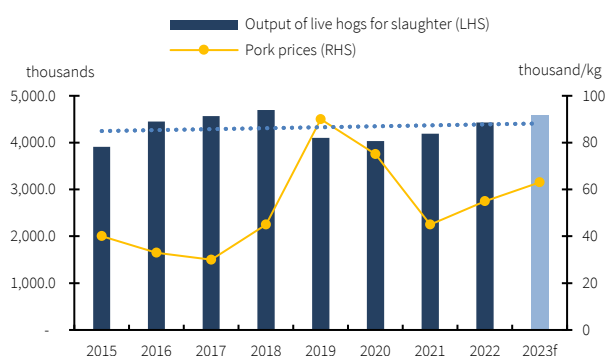
In June 2023, tight supply pushed liveweight hog prices to VND62,000/kg (+10.76% MoM and +5.11% YoY). The reasons behind this are (i) low re-herd rate as breeders struggled with huge losses on plummeting pork prices and (ii) shrinking herd due to swine virus at the beginning of the year. However, hog prices will less likely increase further amid weak purchasing power. We expect a minimal increase to VND65,000/kg by the end of this year, supported by: (i) recovering demand from restaurants, food stalls, and holiday resorts and (ii) limited supply. However, pork supply tends to rebound in the long run when African swine fever is progressively under control (Figure 40 and Figure 41), so price increases will not be significant.

Fig 39. Vietnam – Hog prices by month (VND/kg)



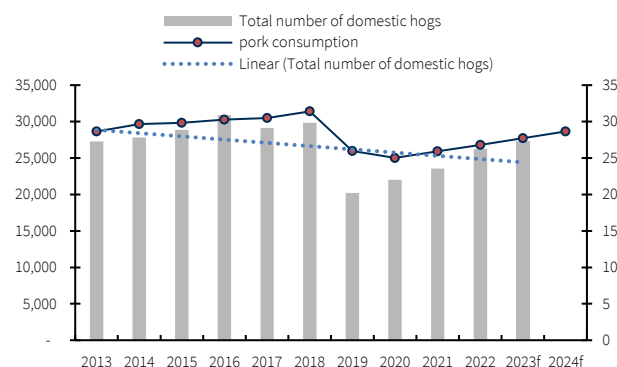
Source: Animal Husbandry Association of Vietnam, KB Securities Vietnam

Fig 40. Vietnam – Output of live hogs for slaughter & pork prices during 2015–2022 (thousand tons, VND thousand/kg)



Source: Animal Husbandry Association of Vietnam, KB Securities Vietnam

Fig 41. Vietnam – Total number of domestic hogs (excluding piglets before weaning) & pork consumption (thousand heads, kg/capita/year)



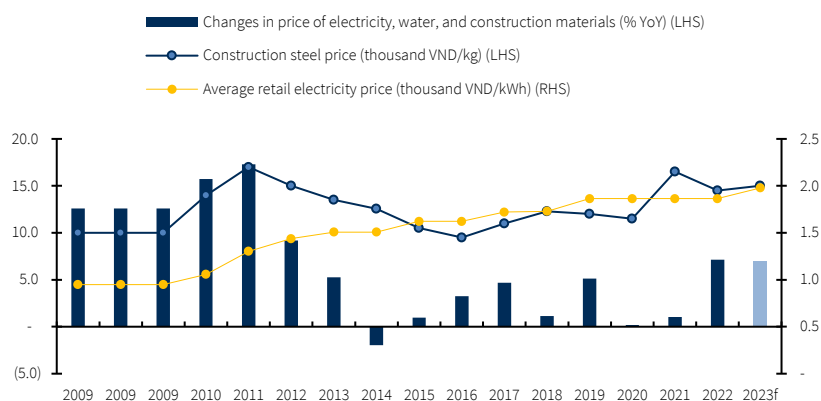
Source: OECD, General Statistics Office, KB Securities Vietnam

Roadmap for electricity and clean water price increases puts pressure on inflation

Despite a recent 3% rise in retail electricity prices on May 4, Vietnam Electricity (EVN) proposed another 3% increase (the maximum level prescribed by the government) from September 1 to offset incurred costs. Once approved, an overall increase of 6% will not only cause the CPI to inch up 0.2% and result in rising inflation, but also influence electricity-intensive manufacturing industries such as steel, cement, and paper production.

Not only that, clean water prices may also increase from VND5,059/m³ to VND8,326/m³ in 2023 and VND9,100/m³ in 2024. Accordingly, 2023F CPI should tick up 0.17%, which would not significantly impact the prices of related goods and services and people's spending.

Fig 42. Vietnam – Electricity, water, construction material CPI

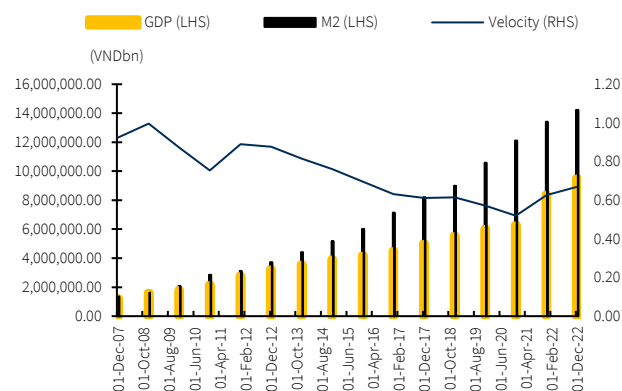


Source: General Statistics Office, Fiinpro, KB Securities Vietnam

Inflationary pressure stemming from monetary policy is not worrisome

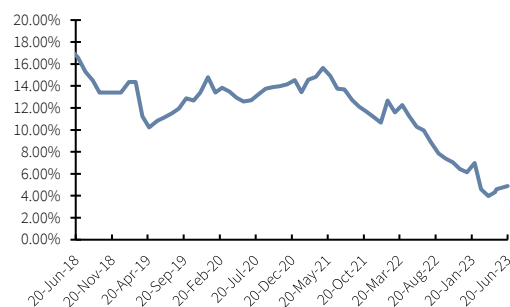
We do not find inflationary pressure stemming from monetary policy worrying. As of the end of June, it was estimated that the M2 money supply grew 4.88% YoY, more slowly than previous years, and currency volatility also leveled off (Figure 43 & Figure 44). Alongside that, capital absorption capacity in the economy is worsened by a depressed property market, driving credit growth to an all-time low. These explain why the M2 money supply would not enjoy strong growth this year.

Fig 43. Vietnam – M2, nominal GDP, currency volatility



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

Fig 44. Vietnam – M2 money supply growth (%YoY)

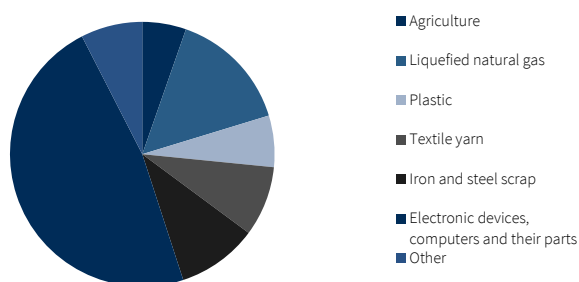


Source: State Bank, KB Securities Vietnam

Import price index fell sharply

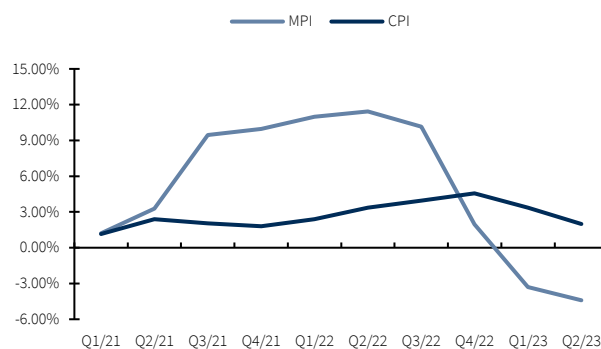
The import price index of key commodity groups, including agricultural products, foodstuffs, fuels, and raw materials for processing and manufacturing, seems to have peaked in the third quarter of 2022. It is returning to its downward trend (Figure 46) thanks to the sharp drop in world commodity prices, which will help ease pressure on inflation in the coming quarters.

Fig 45. Vietnam – Imported goods by percentage (%)



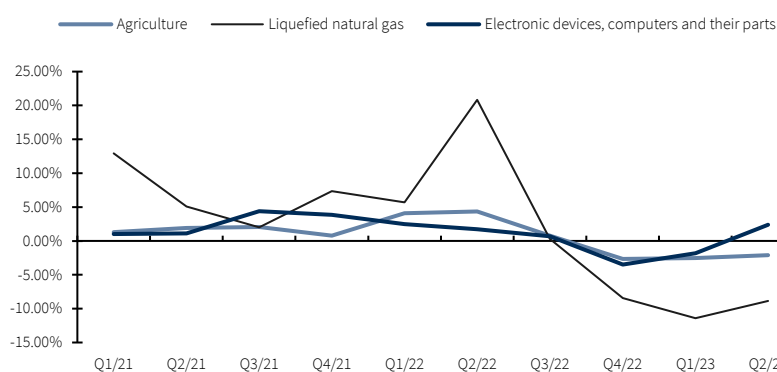
Source: Bloomberg, KB Securities Vietnam

Fig 46. Vietnam – MPI & CPI (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 47. Vietnam – Import price index of commodity groups (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Table 5. Vietnam – 2023F CPI

No.	Groups	Weights (%)	+/- (% YoY)	Contribution to CPI (%)
1	Food and foodstuff			
	Grains	3.67	4	0.1
	Foodstuff	21.28	3	0.6
	Outdoor eating	8.61	5	0.4
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	7	1.3
5	Furniture, household equipment and maintenance	6.74	2	0.2
6	Health	5.39	1	0.0
7	Transport	9.67	-9	(0.9)
8	Communication	3.14	-1	(0.0)
9	Education	6.17	8	0.5
10	Entertainment	4.55	2	0.1
11	Miscellaneous goods and services	3.53	3	0.1
Total				2.8

Source: KB Securities Vietnam

IV. Interest rates

1. 1H23 interest rates

The SBV has cut policy interest rates four times

On March 15, April 3, May 25, and June 19, the SBV issued an official document on reducing policy interest rates in response to weaker-than-expected credit and GDP growth (Table 6). The drastic move in support of the domestic economy proved effective, making bank liquidity abundant.

Table 6. Vietnam – Policy interest rate reductions (%)

	March 15	April 3	May 25	June 19
Refinancing interest rate	6.0%	5.5%	5.0%	4.5%
Re-discount rate	3.5%	3.5%	3.5%	3.0%
Interest rates for overnight loans in interbank electronic payments and loans to cover capital shortage in clearing payments by the SBV for credit institutions	6.0%	6.0%	5.5%	5.0%
Maximum short-term lending interest rate in VND of credit institutions for priority sectors	5.0%	4.5%	4.5%	4.0%
Maximum short-term lending interest rate in VND of People's Credit Funds and Microfinance Institutions	6.0%	6.0%	5.5%	5.0%
Maximum interest rate applicable to demand deposits and terms of less than one month	1.0%	0.5%	0.5%	0.5%
Maximum interest rate applicable to deposits with term from one month to less than six months	6.0%	5.5%	5.0%	4.75%

Source: State Bank, KB Securities Vietnam

Interbank interest rates tend to plunge amid ample bank liquidity

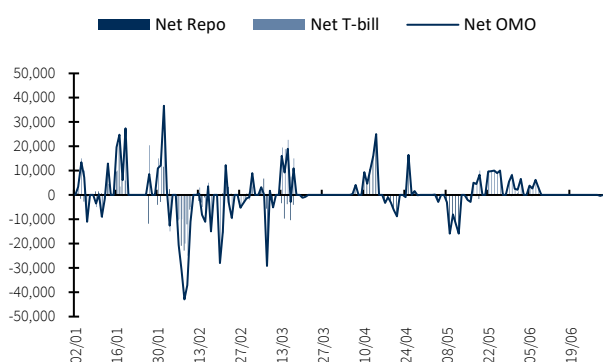
Since the exchange rate shocks and bank stress in the 2022-end period eased, the SBV has aggressively purchased more than USD6 billion to increase foreign exchange reserves in the first six months, not to mention its move to boost liquidity in the short term on the open market in the first quarter. In the second quarter alone, open market operations were relatively quiet when the SBV did not issue treasury bills. Still, regular bids were offered through forward trade but with hardly winning volume, reflecting remarkably stable system liquidity (Figure 48).

Abundant liquidity pulled interbank interest rates down sharply across all terms but more slowly for the long terms to settle at low levels at the end of the second quarter. In particular, overnight, 1-month, and 3-month rates declined 467 bps, 418 bps, and 352 bps YTD, respectively (Figure 49).

Deposit interest rates are approaching pre-Covid levels

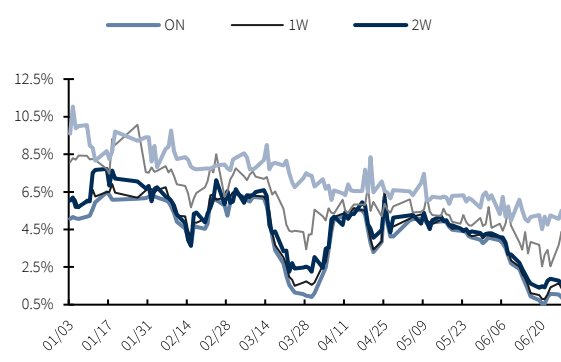
Data from Wichart suggests that the deposit interest rate has maintained a downtrend since its peak at the start of 2023 and is returning to pre-Covid levels (Figure 50). At the time of reporting, the 12-month deposit interest rate of state-owned banks (SOBs) was 6.3%, of large joint stock commercial banks (JSCBs) like Asia Commercial Bank (ACB), Military Bank (MBB), VPBank (VPB), and Techcombank (TCB) was 6.83%, and of other commercial banks was 7.18%. On average, it has fallen substantially by 1.35% in each of the first six months, while the lending rate decrease will have a lag of 3–6 months because the cost of funds across local banks is still higher due to unmatured high-interest deposits. At the same time, the risk of rising non-performing loans (NPLs) will also affect the decision to lower the lending interest rate among banks. According to preliminary estimates, the lending interest rate has narrowed by 1% compared to YE2022.

Fig 48. Vietnam – Open market operations in 1H23



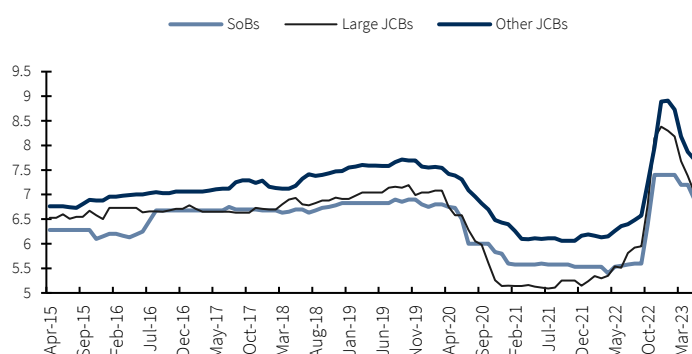
Source: Fiinpro, KB Securities Vietnam

Fig 49. Vietnam – Interbank rates (%)



Source: State Bank, KB Securities Vietnam

Fig 50. Global – Deposit interest rates by month (%)



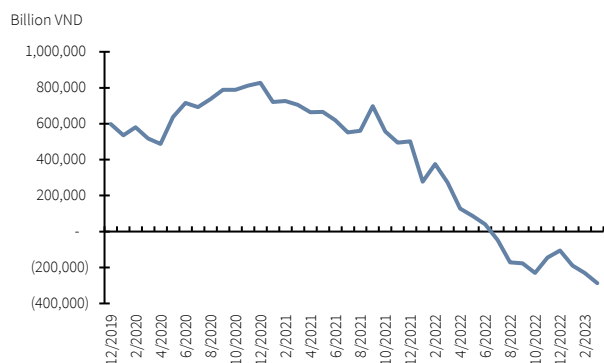
Source: Wichart, KB Securities Vietnam

Credit growth touched a record low and is likely to fall short of expectations by YE2023

Credit growth touched a record low of 3.6% YTD as of June 20th. The full-year growth will likely be far from the 14%–15% target set by the SBV (Figure 51, Figure 52). Lending interest rates have cooled down, but credit growth remains slow, which becomes a spotlight among policymakers. There are three main reasons behind this, including: (i) weak credit demand amid a slowing economy

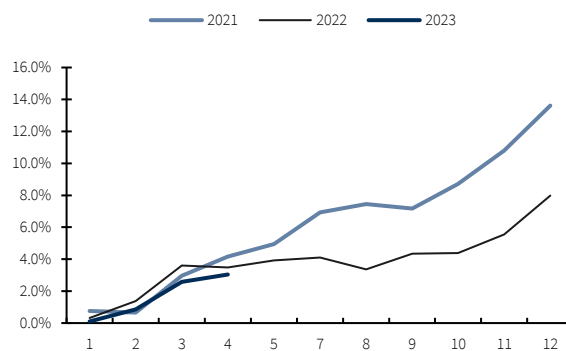
with consumption and investment stagnation, (ii) high credit risk which forced banks to raise lending standards due to growing concerns about surging NPLs, and (iii) reduced yet high lending interest rates.

Fig 51. Vietnam – Deposit-loan gap (VNDbn)



Source: State Bank, KB Securities Vietnam

Fig 52. Vietnam – Credit growth (%YTD)



Source: State Bank, KB Securities Vietnam

2. 2023F interest rates

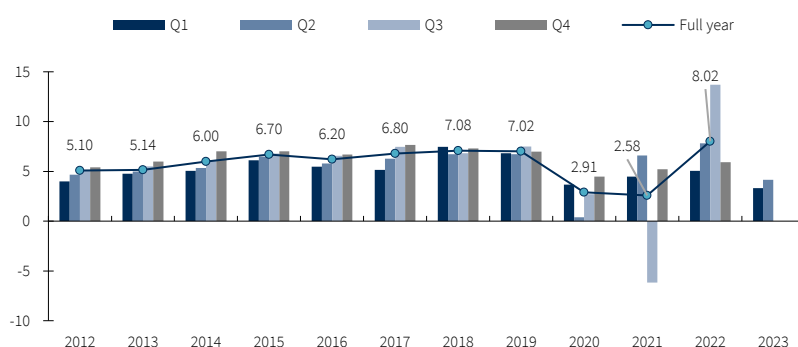
Deposit and lending interest rates should decline further

According to our estimations, deposit interest rates will extend their downward trend until YE2023. The 12-month deposit rate should be down to 6.2% (-1.8% YTD and -0.45% against the current level). Its decline often lags behind since it takes time for banks to lower capital mobilization costs as well as de-risk NPLs surge, but it will tend to decrease by 1.8-2.3% YTD.

Objective and subjective factors support the downtrend of interest rates

i) The Ministry of Planning and Investment recently updated the economic growth scenarios for the year after 1H23 GDP fell short of expectations, reaching only 3.72% (Figure 53). However, the government has not changed its mind yet, meaning more drastic measures should be taken to fulfill the 6.0-6.5% growth guidance. **Therefore, with the top priority being sustaining economic growth, we believe the SBV will announce further rate cuts in case there is no abnormal fluctuation in the USD/VND exchange rate.**

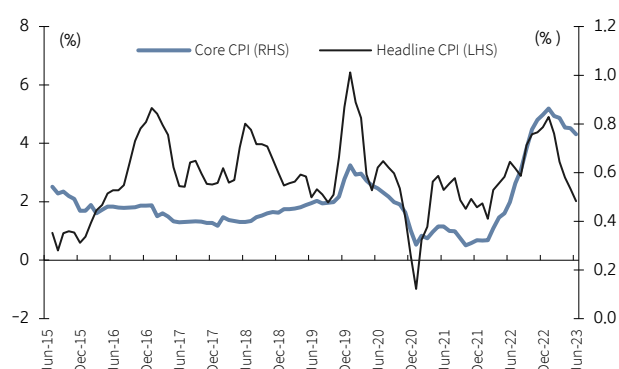
Fig 53. Vietnam – GDP growth by quarter (%)



Source: General Statistics Office, KB Securities Vietnam

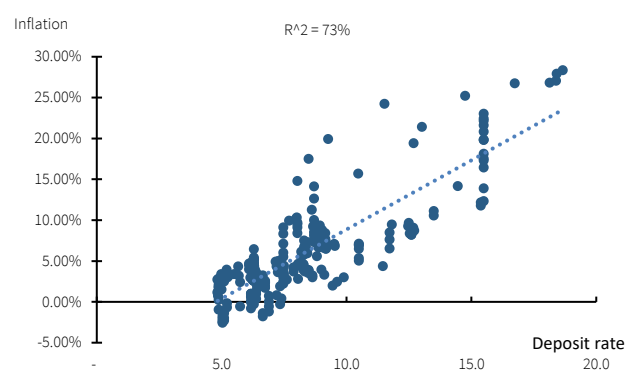
ii) **Inflation has cooled since the start of the year**, recording a 2% YoY rise this June from the peak of 4.9% YoY in January (Figure 54). However, due to the weak resilience of the local economy, evidenced by soft consumption demand, along with other factors such as a 2% reduction in VAT and a stable import price index, inflation will not increase significantly in the foreseeable future. Therefore, we anticipate Vietnam's CPI in 2023 at 2.8% YoY, far below the 4.5% target, which will lay the foundation for deposit rates to decrease in the coming time. The correlation model shows that for every 1% decrease in inflation, there is a 0.43% decline in the deposit rate (Figure 55).

Fig 54. Vietnam – Core & headline inflation (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 55. Vietnam – 12-month deposit rate & headline inflation correlation



Source: State Bank, KB Securities Vietnam

iii) **Credit growth plunged to a record low**, reaching only 3.2% YTD by end-May. Therefore, full-year growth will likely be far below the target assigned. A recent survey conducted by the SBV suggested that commercial banks expect total outstanding loans to advance 12.5%, down 0.6% versus the previous one. Despite that, the SBV is still consistent with its credit growth target of 14–15% for 2023. In addition, lenders have been aggressively deploying credit programs to assist small- and medium-sized enterprises (Circular No. 02, four policy rate cuts, ceiling interest rate limit for priority sectors). As deposit interest rates have dropped markedly since early this year, leading to shrinking cost of funds across banks while 2022-end high-interest loans matured, banks will likely lower lending rates to attract new borrowers.

Given the above factors, we find the downward trend of interest rates visible in 2H23. However, the actual reduction will depend on the recovery of the economy, the health of businesses, risks related to real estate as well as corporate bonds, leading to the probability of financial losses. If high credit risk remains, banks will offer high lending rates to offset high provisions for credit losses, thereby hindering the government and SBV's efforts to reduce interest rates.

NPLs increased dramatically in 1Q23 and may continue their uptrend in 2Q23. However, we expect the situation to improve in the last two quarters of the year thanks to the government and the SBV's supportive policies.

V. Exchange rate

1. 1H23 VND/USD exchange rate

Interbank exchange rates remain stable around 23,550

In the first half of 2023, the interbank exchange rates lingered around +1.2% YTD, peaking at 23,817 (+0.8% YTD) in February, but declined at the end of March and moved around 23,520, thanks to: (i) the US dollar index (DXY) dropped steeply on rising concerns over the US recession risk after three banks in the US, namely Silicon Valley Bank (SVB), Silvergate Bank, and Signature Bank, went bankrupt. This may prompt the Fed to pause interest rate hikes at the end of 2Q23 and (ii) a stable USD supply and trade surplus enable the SBV to buy more than USD6 billion to increase foreign exchange reserves (Figure 56 & Figure 57).

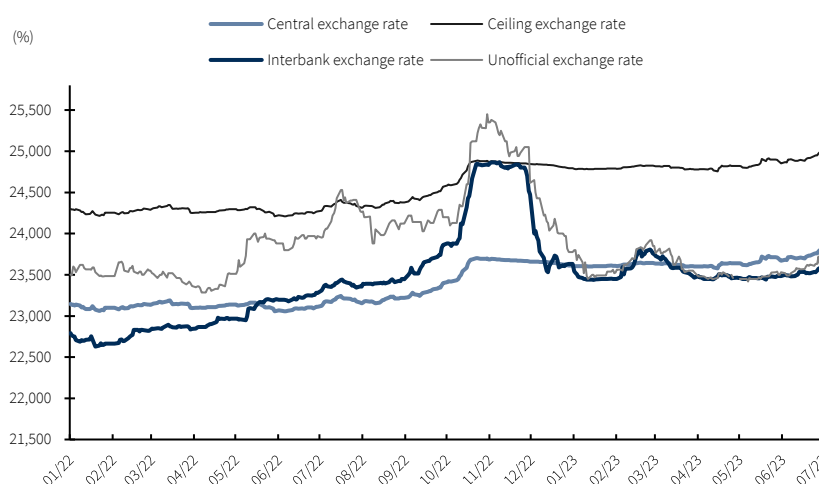
Unofficial exchange rates decrease as the gap between domestic and international gold prices narrows

During the first half of 2023, the unofficial exchange rates moved in line with the interbank exchange rates, and the gap shrank significantly when the gap between domestic and international gold prices narrowed to settle at VND10 million/tael, lowering demand for smuggling gold. By the end of June 2023, the unofficial rate lost 0.61% YTD to 23,630.

NEER and REER both see an uptrend

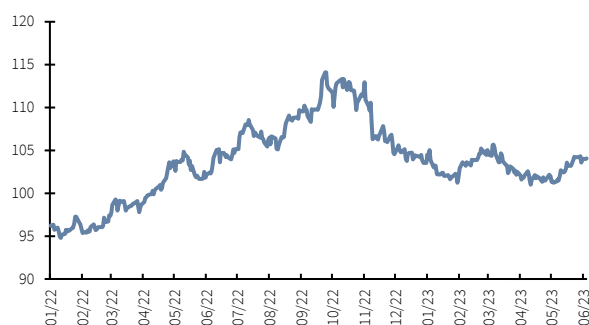
The NEER and REER of VND tend to increase. Specifically, by the end of June, the NEER increased 1.63% YoY, and the REER rose 3.05% YoY (similar to a stronger VND against a basket of trading partner currencies) (Figure 58). The uptrend of the NEER was mainly due to the depreciation of CNY (-7% YoY). Similarly, the stronger increase of the REER than the NEER was primarily due to low inflation in China, with June CPI flat YoY. It reflects the reduced competitiveness of Vietnam's exports, especially against its top trading partner China. It is also one of the determinants of how the exchange rate develops.

Fig 56. USD/VND exchange rate



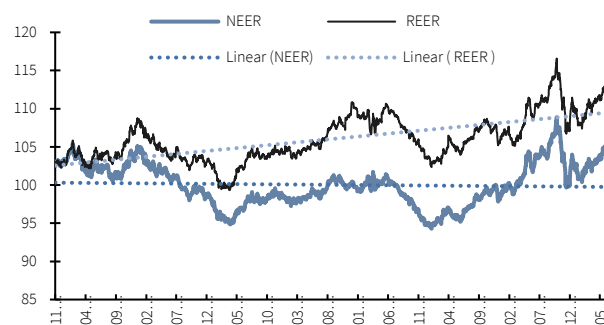
Source: Bloomberg, Fiiopro, KB Securities Vietnam

Fig 57. US – US Dollar Index



Source: Bloomberg, KB Securities Vietnam

Fig 58. Vietnam – NEER & REER



Source: Bloomberg, KB Securities Vietnam

2. 2023F USD/VND exchange rate

Strong DXY and conflicting policies between the SBV and the Fed can send the USD/VND exchange rate higher

The USD/VND exchange rate tended to increase in the first half of July, and we find the exchange rate pressure in the last six months noteworthy for the following reasons:

- DXY is forecast to see a slight upward trend in the second half of the year thanks to (i) at least one more rate hike announced by the Fed in the year, (ii) stronger-than-expected resilience of the US economy, and (iii) expansionary monetary policy in China and Japan. The Fed held off on a rate hike at its June meeting to evaluate implications of the cycle on the economy. However, wage growth, consumer confidence, and unemployment indicators remain positive. Experts at CME Group said the chance that the Fed would raise interest rates by 25 bps at the upcoming July meeting falls at 92.4%. In that context, the loosening financial conditions of China and Japan are expected to continue, which may cause the value of the two countries' local currencies to decrease against the USD (Figure 59). However, the US CPI and PPI in June showed clear signs of cooling, so we assess the DXY will possibly increase sharply from the current level.
- The conflicting policies between the Fed (continuous rate hikes and high base maintained) and the SBV (four policy interest rate cuts in the first half and possible decreases in the coming time) should continue in the second half of 2023 (Figure 60). This would cause the gap between the USD and VND deposit interest rates to widen, with the former significantly higher than the latter, triggering carry trade activities (investors will borrow money in one currency at a low interest rate and invest in a currency that has a higher interest rate), thereby increasing the demand to buy and hold onto USD and putting pressure on the exchange rate (Figure 63).

On the other hand, an abundant USD supply continue to curb a strong increase in the exchange rate

However, in the first half of the year, despite the loosening monetary policy, VND is still one of the most stable currencies in Asia due to abundant USD supply. We believe these advantages will still be maintained in the last six months, curbing the significant increase in the exchange rate. The USD supply will continue coming from trade surplus, FDI, and remittances. In addition, large

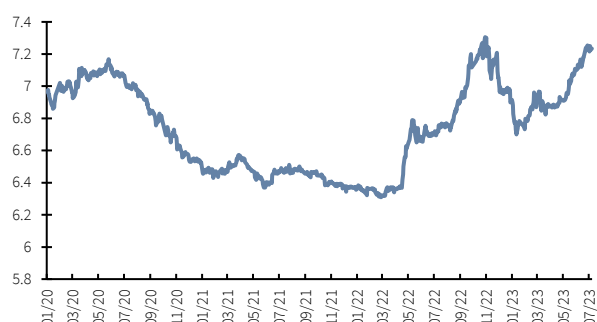
capital sales at Sai Gon Hanoi Commercial Bank (SHB), Thaco, Vincom Retail (VRE), and international bond issuance at Vinhomes (VHM) can bring in a huge source of foreign currency for the system.

USD/VND exchange rate may increase 2% YTD by YE2023

With the abovementioned factors, we assume the USD/VND exchange rate will increase by 2% this year, to around 24,100 for the interbank exchange rate. With the orientation of supporting economic growth and reducing interest rates, we believe the SBV will not necessarily intervene to stabilize the exchange rate, such as raising interest rates or selling off foreign exchange reserves. In fact, a moderate depreciation of the VND against the USD will have a positive impact on exports though it may come at the expense of macro stability, especially in relation to capital flows.

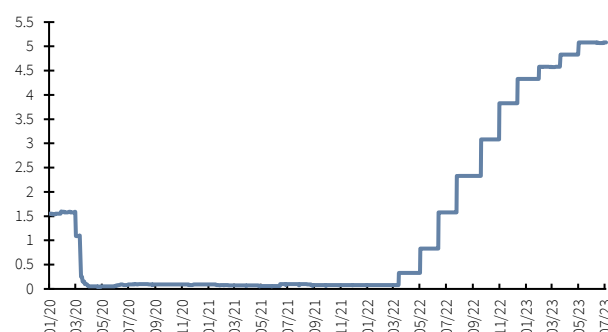
In the scenario whereby the exchange rate depreciates more than 3% this year, we will further evaluate the SBV's policy expectations, depending on variables related to growth, inflation, or the health of the manufacturing and export sectors.

Fig 59. USD/CNY exchange rate



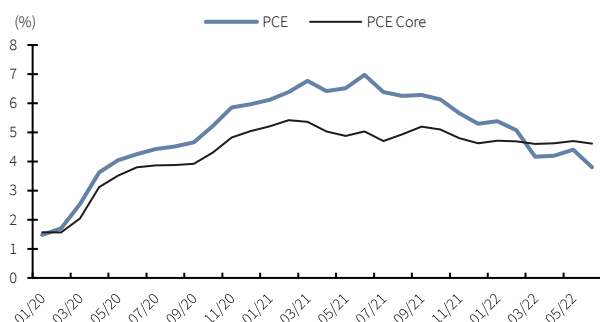
Source: Bloomberg, KB Securities Vietnam

Fig 60. US – Fed funds rate (%)



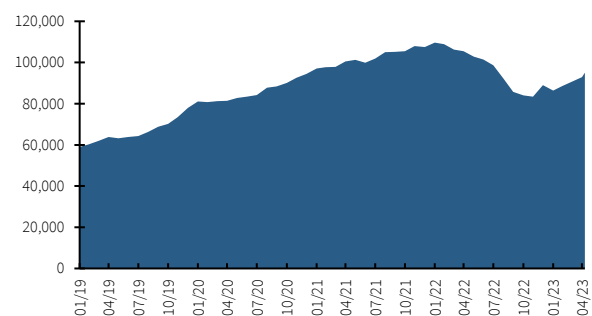
Source: Bloomberg, KB Securities Vietnam

Fig 61. US – PCE, PCE core (%)



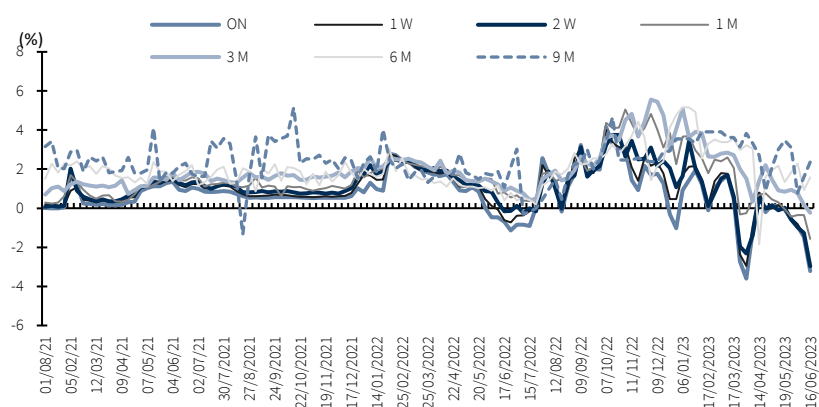
Source: Bloomberg, KB Securities Vietnam

Fig 62. Vietnam – Foreign exchange reserves (Million USD)



Source: Bloomberg, KB Securities Vietnam

Fig 63. Vietnam – VND–USD deposit interest rates (%)



Source: State Bank, 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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