Vietnam Economic Update

March 2023

Shinhan Securities

Stabilize macroeconomics ahead global uncertainty, policy highlights

Global financial market tensions

Central banks hike interest rate despite of bank failures when inflation fight has not been over yet

In March 2023, the world has witnessed the turmoil of banking sector with the collapse of 3 US banks (Silvergate Bank, Silicon Valley Bank-SVB, Signature Bank) and crisis at Credit Suisse, the second largest bank of Switzeland and in top 30 globally important banks. The Federal Reserve (FED), Treasury Department and FDIC took decisive actions to protect the U.S. economy and to strengthen public confidence in banking system. Meanwhile, Swiss National Bank also quickly supported the acquisition of Credit Suisse by UBS for USD3.25bn to avoid contagion risk. The bank failures are attributed by the impact of rising interest rates, which severely reduced the banks' asset value, and the weakness in risk management.

Despite the chaos of banking system, FED still raised federal interest rate by 25 basis points to 4.75%-5% on March 22, 2023 to bringing inflation back down to 2% goal. Fed offficers predict interest rate peak at 5.1% and most of them expect that there is only one more rate hike. Swiss National Bank on March 23, 2023 also decided to raise its interest rate by 50 basis points to 1.5% and similar actions followed by other central banks like BoE, Norges Bank...Anyway, the central banks are expected to pivot monetary policy soon as recession risk increasing after the collapse of some weak banks.

Macroeconomics remain stable

Economic growth slowdown but key balances ensured and inflation controlled

GDP Q1 2023 is estimated to increase by 3.32%YoY, only higher than 3.21% of Q1 2020 in the period of 2011-2023 backed by the industry and construction sector decreased by 0.4%, lower 4.76% in the overall growth. In contrast, the service sector recovered markedly by 6.79% after reopen the economy and contributing 95.91% to the overall growth. Average CPI of Q1 2023 cooled down with an increase of 4.18% (under 4.5% target) and exchange rates have been stabilized. Export turnover in Q1 2023 lowered by 8.3%YoY but trade balance was still surplus of nearly USD 4 billion. Public investment has been accelerated since the beginning of the year and reached VND 91.5 trillion in the first quarter (+13.4%YoY), equal to 13.4% of the year plan. Even though, 6.5% GDP growth target is challenging for 2023, then robust public investment is highly expected to create growth engine for the economy in short and long term when global market still under high uncertainty.

Policy highlights in March 2023

SBV cut policy interest rates and actively deal with global financial uncertainty

SBV surprised with policy interest rates cut by 50 to 100 basis points for 2 consecutive times in March (on March 15 and March 31, 2023) in the context of inflation controlled. Accordingly, from April 3, 2023, the refinancing rate, discount rate and overnight rate for the inter-bank electronic payments and the rate applied to loans to finance short-term balances in clearing transactions between SBV and credit institutions are lowered to 5.5% p.a, 3.5% p.a. and 6.0% p.a, respectively. The interest rate cap applied to VND short-term deposits and short-term loans in priority sectors at credit institutions were also cut by 50 and 100 basis points, respectively. After this move of SBV, commercial banks have simultaneously reduced deposit and lending rates; and interbank interest rates have also dropped sharply to around 1-2% - its range during the period of COVID-19 pandemic.

Degree No. 08/2023/NĐ-CP – "Soft landing" solution for corporate bonds

Degree No. 08/2023/NĐ-CP dated March 5, 2023 has amended, supplemented and suspended the effect of some regulations on issuance and trading of private corporate bonds in domestic and overseas market. Accordingly, the issuers will be able to (1) pay bond principal and coupons by other assets; (2) extend the bond term up to 2 years; and (3) temporarily suspend the regulation on the application of new criteria for individual professional investors and credit rating requirement for issuers. This Decree will help many businesses have time to restructure, effectively handle maturing bonds and increase capability of corporate bond issuance in the near future.

Resolution No. 33/NQ-CP – Removing difficulties for the real estate market

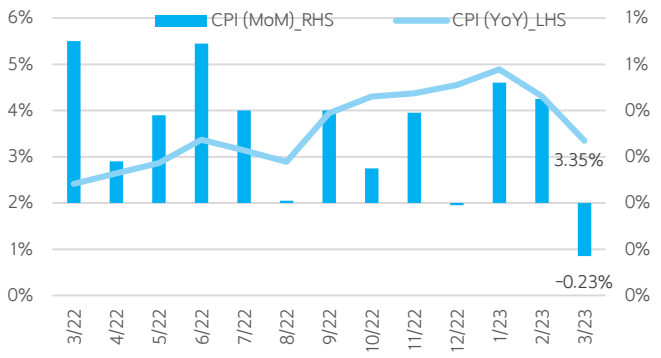
Resolution No. 33/NQ-CP dated March 11, 2023 regarding to the solutions to remove difficulties and promote the sustainable development of real estates market, especially in terms of governance, implementation and funding sources for the market. Right after that, 4 state-owned commercial banks will launch a credit support package of VND 120,000 billion for developers and homebuyers of social housing projects with preferential interest rates of 1.5-2% lower than market rate since the beginning of April 2023.

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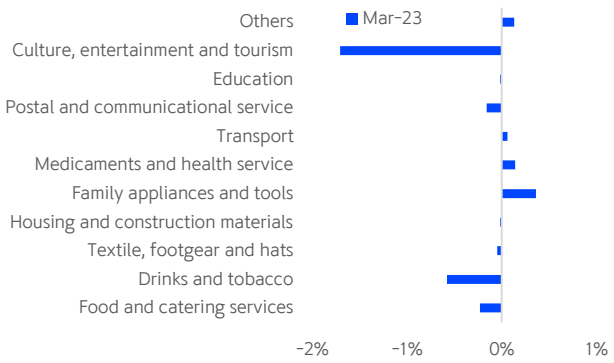
Inflation cooled down in March 2023 thanks to lower food and gasoline prices, the average CPI of Q1 2023 fell below the threshold of 4.5% target (reached 4.18%).

CPI



Source: GSO, Shinhan Securities Vietnam

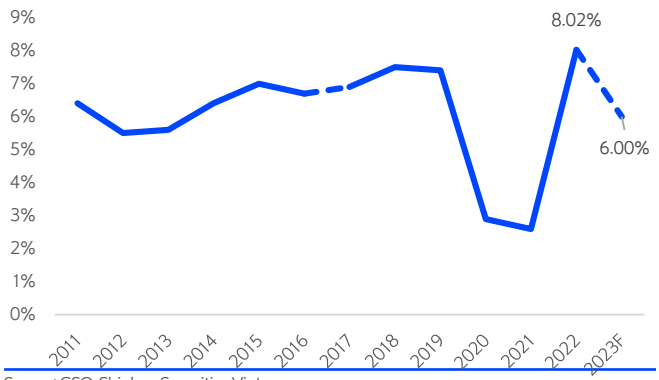
Changes in CPI categories (MoM)



Source: GSO, Shinhan Securities Vietnam

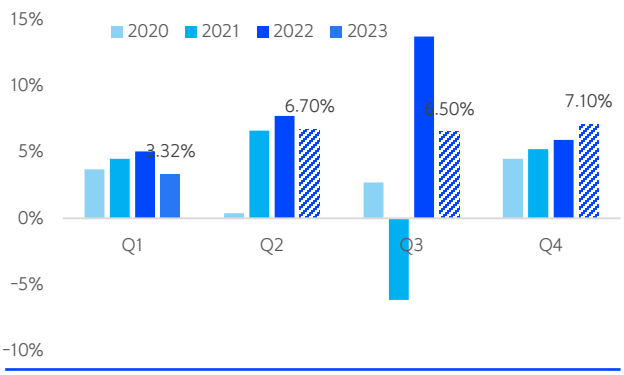
GDP Q1 2023 increased by 3.32%YoY, the second lowest in the 2011-2023 period (just higher than Q1 2020), challenging the year growth target of 6.5%.

GDP, YoY growth



Source: GSO, Shinhan Securities Vietnam

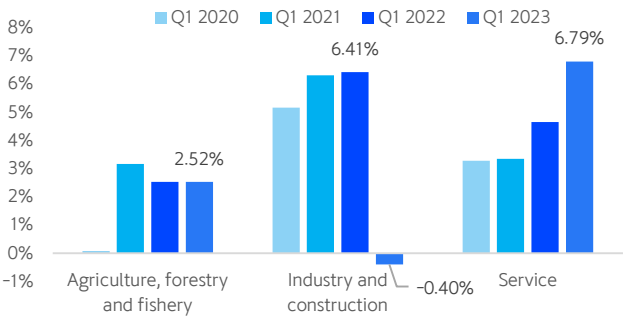
Quarterly GDP, YoY growth



Source: GSO, Shinhan Securities Vietnam

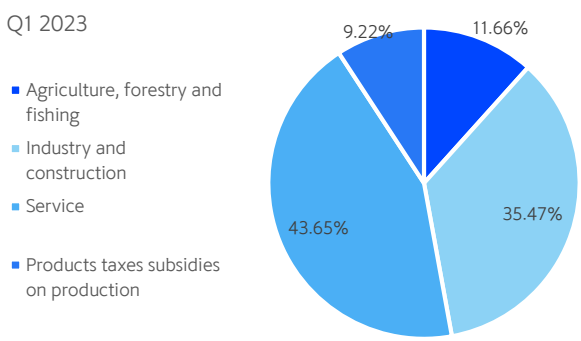
Service sector continues to recover while industry and construction grow negatively in Q1 2023

GDP by sectors, YoY growth



Source: GSO, Shinhan Securities Vietnam

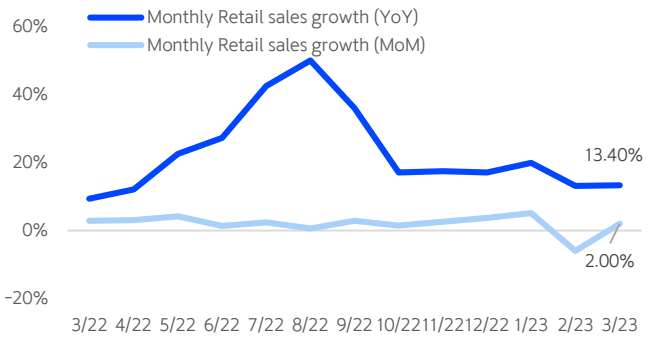
% shares of GDP



Source: GSO, Shinhan Securities Vietnam

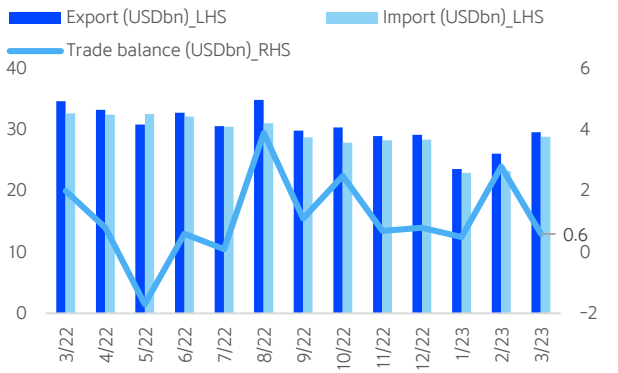
Retail recovered thanks to positive contribution of tourism while import and export turnover decreased amid weak global demand, trade balance maintained a surplus of USD 4 billion in Q1 2023.

Retail sales of goods and services



Source: GSO, Shinhan Securities Vietnam

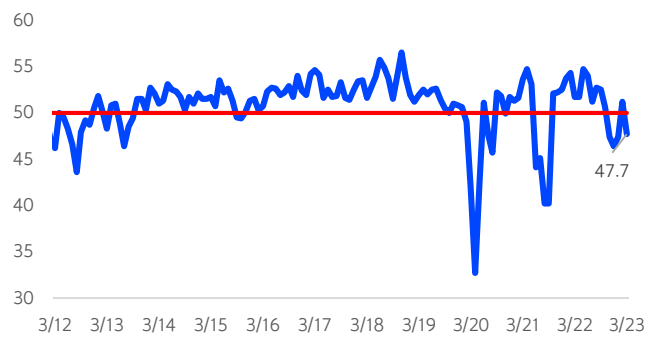
Import-Export turnover



Source: GSO, Shinhan Securities Vietnam

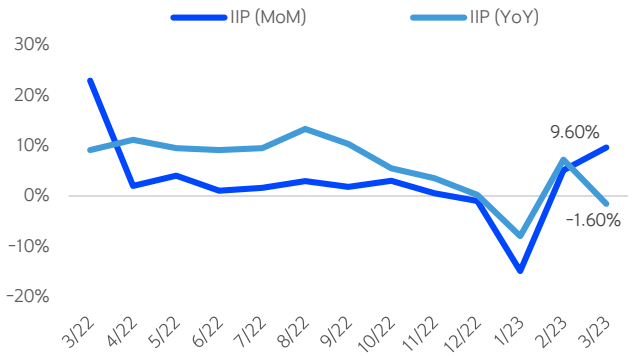
Industrial production declined due to the decrease of orders and import-export turnover.

Purchasing Managers' Index (PMI)



Source: S&P Global PMI, Shinhan Securities Vietnam

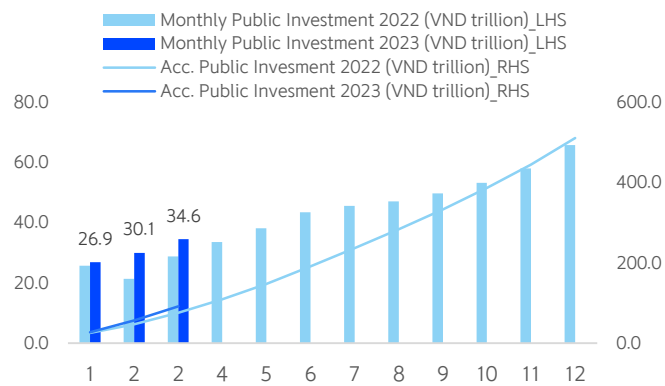
Index of industrial production (IIP)



Source: GSO, Shinhan Securities Vietnam

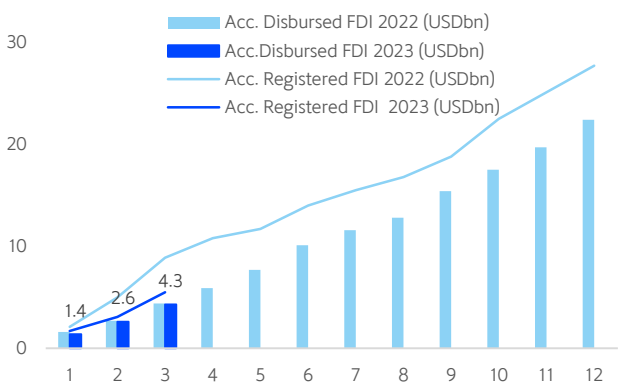
Public investment was promoted since the beginning of the year to create a driving force for economic growth while FDI showed signs of slowing down.

Public investment



Source: GSO, Shinhan Securities Vietnam

Foreign direct investment (FDI)



Source: MPI, Shinhan Securities Vietnam

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