Vietnam Economic Update

June 16, 2023

Continuous measures to stimulate economic growth

More economic support measures

SBV cut policy rates for 4th time, effective from June 19, 2023

In less than one month, SBV has decreased policy rates twice and this is the 4th time of interest rate cut in the first half of 2023, in order to encourage commercial banks to lower deposit rate and then, lending rate to support economic growth.

Besides interest rate cut, fiscal supports have been accelerated by continuing VAT reduction from 10% to 8%, devising a 50% cut on auto registration fees for locally assembled or manufactured cars from July 1 to December 31, 2023; speeding up disbursement of public investment, credit package of VND 40 trillion (2% interest rate subsidy for enterprises affected by Covid-19) and VND 120 trillion (support social housing development).

Bright spots of the economy in May 2023

Trade, services and investment increased sharply over the same period

Total retail sales of consumer goods and services in May increased by 1.5%MoM and 11.5%YoY. For 5M2023, the retail sales increased by 12.6%YoY, highest level compared to the same period of years from 2015 onwards, in which sales from accommodation and catering services increased by 22.1%YoY, tourism increased by 89.4%YoY.

By robust trade promotion, import-export turnover in May was estimated to increase by 5.3%MoM. For 5M2023, total import-export turnover was estimated at USD 262.54 billion (-14.7%YoY) and trade surplus was USD 9.8 billion.

Investment capital from the State budget in 5M2023 was estimated at VND 177 trillion, equaling 25.5% of the year plan and increasing by 18.4%YoY (public investment only reached 24.9% target and increased by 10.8% in the same period of 2022). Total registered foreign direct investment (FDI) as of May 20, 2023 reached USD 10.86 billion (-7.3%YoY) and disbursed FDI reached USD 7.65 billion (-0.8%YoY). As for newly registered FDI, it is estimated at USD 5.26 billion, increased strongly by 27.8%YoY.

Many challenges still ahead

Steepest decline in new orders for 20 months, manufacture continually facing difficulties

According to S&P Global, Vietnam Manufacturing Purchasing Managers' Index (PMI) dropped to 45.3 in May from 46.7 in April, thereby signaling a third successive monthly deterioration in operating conditions. “The steepening decline in new orders during May is a cause for concern as it suggests that the Vietnamese manufacturing sector may be in for a lengthy downturn rather than a transitory soft-patch”.

The Index of Industrial Production (IIP) in May increased by 2.2%MoM and 0.1%YoY but IIP of 5M2023 still decreased by 2%YoY, of which the manufacturing sector decreased by 2.5%YoY (IIP increased by 8.9% in same period of 2022).

Core inflation still high, risk of foods price increase affected by El Nino

Consumer price index (CPI) in May 2023 only increased by 0.01%MoM and by 2.43%YoY, while core inflation increased more strongly at 0.27%MoM and 4.54%YoY. Core inflation average of 5M2023 increased by 4.83%YoY, higher than the increase of headline CPI average at 3.55%YoY, mainly thanks to the domestic gasoline prices down by 15.27%YoY and gas prices down by 8.51%YoY.

The National Center for Hydro-Meteorological Forecasting confirmed that the El Nino climate pattern has officially returned and will be maintained until 2024 with a probability of 80-90%, most likely leading to weather phenomena and extreme negative impacts on socio-economic activities, especially harvest and food prices to put pressure on inflation in the coming time.

Because core inflation remains high and global food prices potientially soar, the governors may be cautious with interest rate cut to bring inflation down to target. Fed officials announced pause in US rate hike on June 14 after 10 consecutive times of interest rate increase while also indicating that at least two more hikes (0.25% each time) might be necessary before the year end. A day after, ECB raised rate by 0.25% to highest in 22 years and possibly another hike in July. These are also headwinds for striving of Vietnam to lower the interest rate.

SBV's interest rate adjustments from the beginning of the year to June 16, 2023

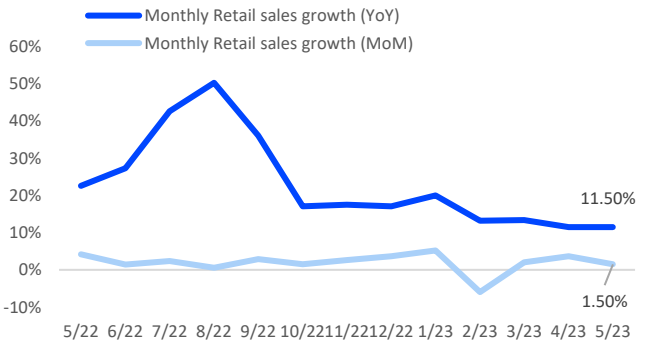
Policy rates (% p.a)	Before 15/3/2023	1st time 15/3/2023	2nd time 3/4/2023	3rd time 25/5/2023	4th time 19/6/2023
Discount rate	4.50	3.50	3.50	3.50	3.00
Refinancing rate	6.00	6.00	5.50	5.00	4.50
Overnight electronic interbank rate	7.00	6.00	6.00	5.50	5.00
Interest rate cap for mobilization in VND for demand and below 1-month term	1.00		0.50	0.50	0.50
Interest rate cap for term deposits in VND of 1-month to below 6-month term	6.00		5.50	5.00	4.75
Interest rate cap for short-term loans in VND provided by the credit institutions to borrowers in priority sectors	5.50	5.00	4.50		4.00

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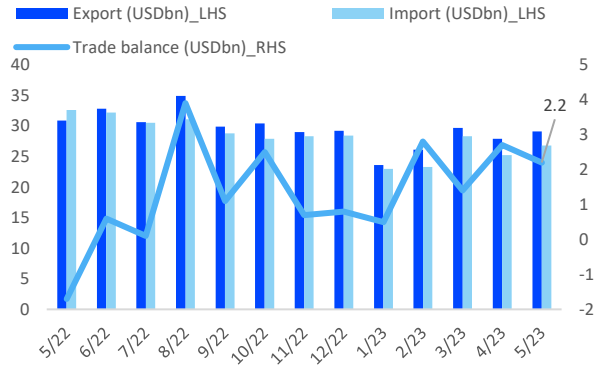
Retail sales maintained y-o-y growth, import-export slightly recovered in May

Retail sales of goods and services



Source: GSO, Shinhan Securities Vietnam

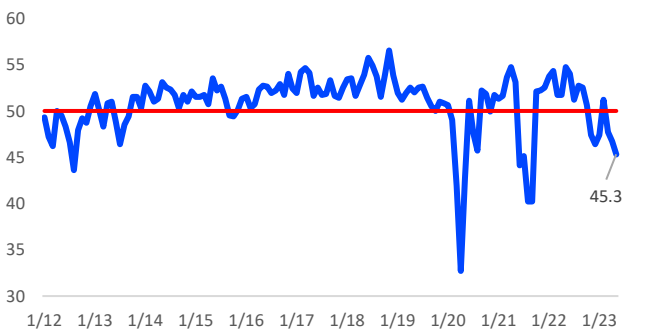
Import-Export turnover



Source: GSO, Shinhan Securities Vietnam

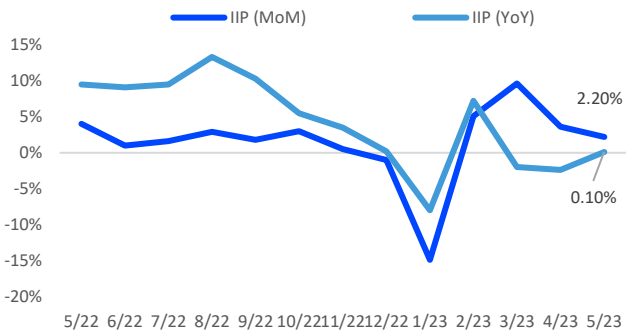
Steepest decline in new orders for 20 months, manufacturing may face difficulties for long-run

Purchasing Managers' Index (PMI)



Source: S&P Global PMI, Shinhan Securities Vietnam

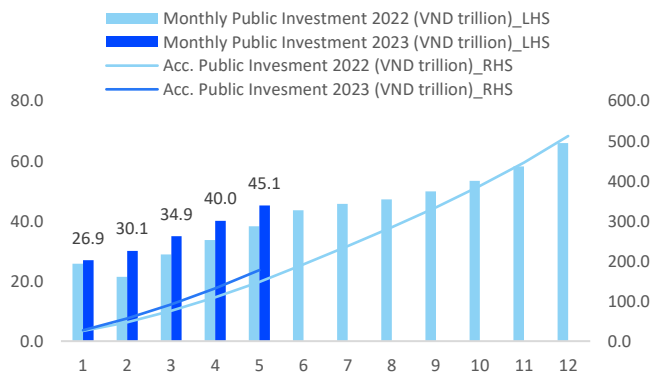
Index of industrial production (IIP)



Source: GSO, Shinhan Securities Vietnam

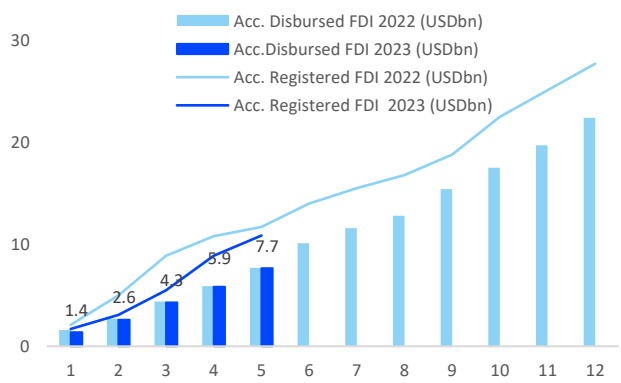
Public investment promoted continuously while disbursed FDI maintained.

Public investment



Source: GSO, Shinhan Securities Vietnam

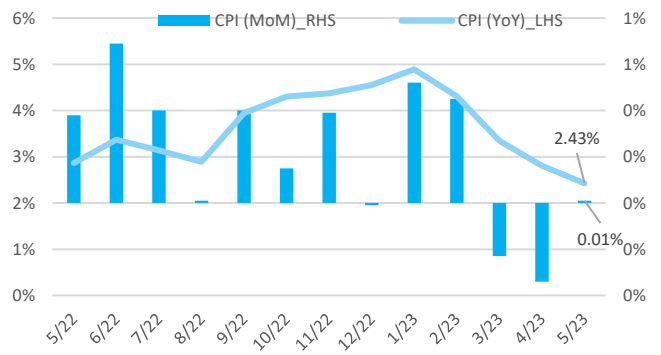
Foreign direct investment (FDI)



Source: MPI, Shinhan Securities Vietnam

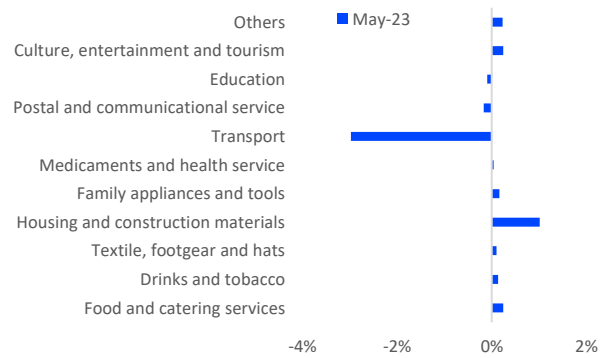
CPI in May increased slightly by 0.01% due to the increase in food prices, electricity and water prices under prolonged hot weather, while gasoline prices decreased by 7.83%, pulling the transport group down by 2.98%.

CPI



Source: GSO, Shinhan Securities Vietnam

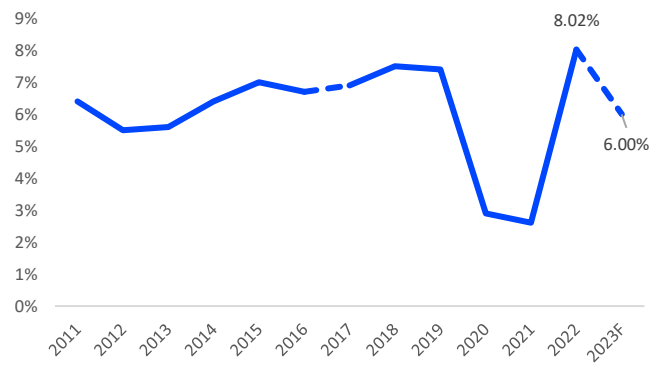
Changes in CPI categories (MoM)



Source: GSO, Shinhan Securities Vietnam

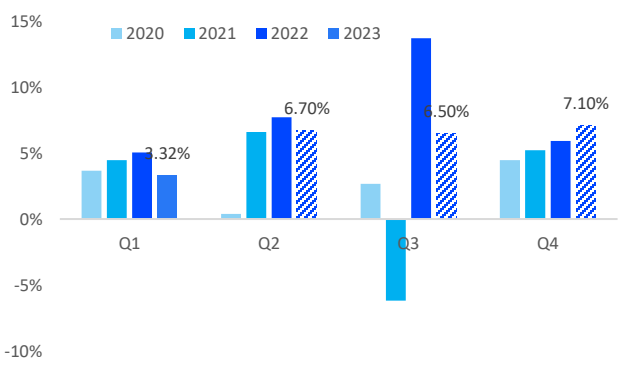
GDP Q1 2023 increased by 3.32%YoY, second lowest in 2011-2023 period (just higher than Q1 2020), challenging the year growth target of 6.5%.

GDP, YoY growth



Source: GSO, Shinhan Securities Vietnam

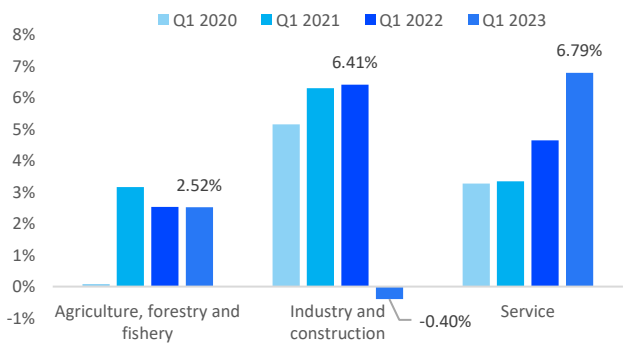
Quarterly GDP, YoY growth



Source: GSO, Shinhan Securities Vietnam

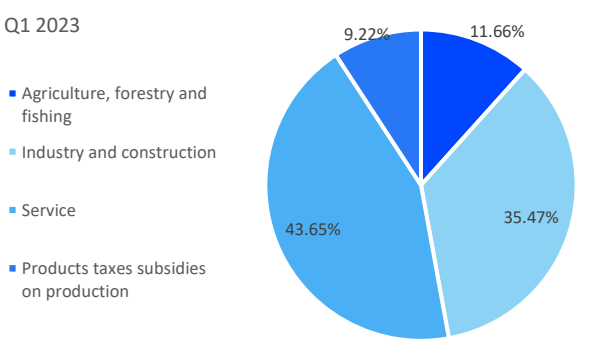
Service sector continues to recover while industry and construction grow negatively in Q1 2023

GDP by sectors, YoY growth



Source: GSO, Shinhan Securities Vietnam

% shares of GDP



Source: GSO, Shinhan Securities Vietnam

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