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Monthly Updates on Macroeconomics and Financial Market in March 2023

Hanoi, April 2023

Prepared by Economic and Financial Market Analysis Team

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Global economy is now even more uncertain as a result of central banks' new dilemma between high inflation and financial instability, Vietnam's economic growth in 2023 will be primarily led by service sector

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Section 1

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Executive Summary

- **Global economy:**
  - *Glooming picture of global economy is still the base-case view of most economists. World Bank (WB) forecast global GDP growth rate of 1.7% in 2023, one of the lowest figures since 2000 which is only higher than The Great Recession in 2009 and COVID-19 recession in 2020.*
  - *For the time being, central banks continue to prioritise inflation battle over concerns about financial volatility. European Central Bank (ECB) continued to hike rates by 50 basis points (bps) for the sixth consecutive time and Federal Reserves (Fed) decided to raise another 25 bps with projection of no rate cut for the rest of the year amid market turmoil in March.*
  - *Our view stands with market pricing rate, which is more optimistic than Fed's, with numerous cuts expected this year. The market is anticipating rate cuts of 50 bps in total till the end of 2023 after a rise in May meeting, according to data from Bloomberg's implied Fed Funds Rate.*
- **Vietnam economy:**
  - *Vietnam's economy has been severely impacted by global downturn due to the country's high degree of openness. Vietnam's manufacturing sector has plummeted as its real value added fell by 0.37% in 1Q2023, in contrast to 2014-2019 average growth rate of 10.4%. Foreign investments are also affected by global events.*
  - *Demand side of the economy has been resilient, thanks to the strong recovery of tourism activities. This is also reflected in 1Q2023 real value added of service sector, which grew by 6.79% and contributed significantly to overall GDP by 95.91%.*
  - *We expect 2023 GDP growth to be in the 4.3% - 4.7% range. If public investments from State budget is strongly disbursed in the early months and lending rates significantly decrease, the growth could move closer to its preset target at 6.5% set by the Government.*
  - *Given expected average inflation of Vietnam in 2023 at 3.7%, State Bank of Vietnam (SBV) proactively cut interest rates twice in March to support the economy. Yet, SBV could potentially implement further cuts in order to support GDP growth rate target at 6.5%, which would allow deposit rates to drop towards pre-COVID-19 level.*
  - *As we and the market predict Dollar index (DXY) depreciation, the downward trend of DXY has been significantly supporting the recent VND appreciation and is expected to continue in the longer term. For the rest of the year, VND is forecast to move sideways and even slightly appreciate thanks to further supports from continued surplus in trade balance and big inflows from Mergers and Acquisitions (M&A) deals.*

Section 2

Global Economy

Central banks' battle against high inflation and highly unpredictable financial market potentially result in one of the lowest global economic growth rates since 2000

Glooming picture of global economy is still the base-case view of most economists

Kristalina Georgieva, Managing Director of International Monetary Fund (IMF), stated at a recent conference in Beijing that global economic uncertainties remained "exceptionally high". In both 2023 and 2024, global economic growth is anticipated to remain below the last decade's average of 3.8%, much depending on the recovery of China which accounts for one third of global growth. Meanwhile, according to recent World Bank (WB) projections, global economic growth will stay at 2.2% per year on average for the rest of this decade, with the risk of being worse if the recent financial turmoil leads to a global financial disaster. Particularly, WB forecast global GDP growth rate of 1.7% in 2023, one of the lowest figures since 2000 which is only higher than The Great Recession in 2009 at -1.3% and COVID-19 recession in 2020 at -3.1%.

Based on Bloomberg's survey, recession probability in the next 12 months for the US has remained above 60% since October 2022, while EU's figure has decreased significantly from 80% to 49% since January 2023 as it remarkably avoided recession in last winter.

Figure 1: Annual Global GDP growth by World bank

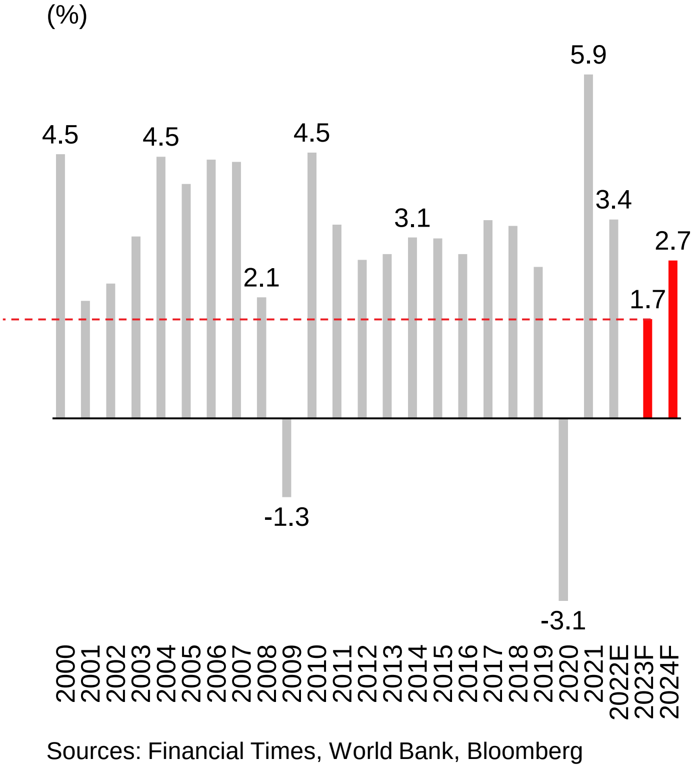
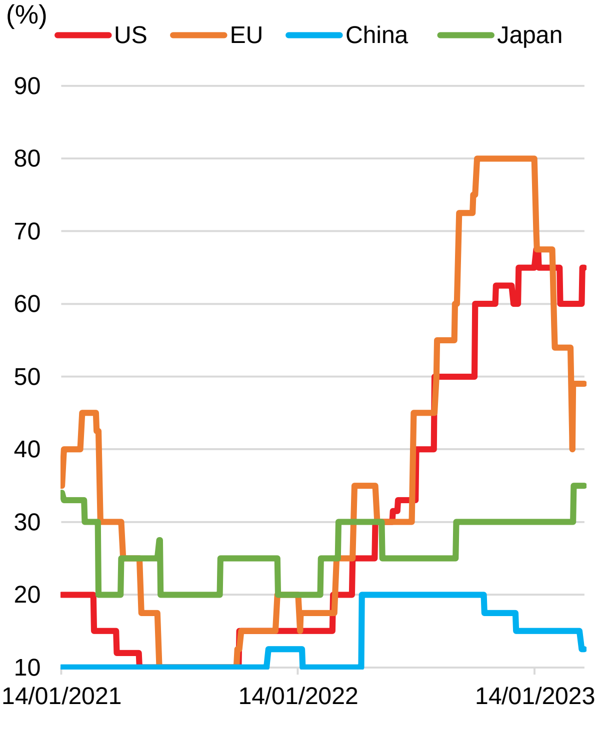


Figure 2: Next 12-month recession probability



Sources: Financial Times, World Bank, Bloomberg

Section 2

Global Economy *(Cont.)*

For the time being, central banks continue to prioritise inflation battle over concerns about financial volatility

Aforementioned predictions of poor economic performance resulted from the expectation of ongoing monetary tightening by central banks to fight against high inflation. Some analysts also point the finger at central banks because their interest rate hikes at a high pace caused recent financial turbulences in March including the collapse of Silicon Valley Bank (SVB), the shutdown of Signature bank in the US and Credit Suisse event in Europe.

Yet, central banks show their determination to fight against inflation by sticking to rate hike plans. In a speech at London School of Economics, Andrew Bailey, Governor of Bank of England, stated that the recent financial turmoil would not prevent the central bank from controlling inflation with high interest rates. European Central Bank (ECB) continued to hike rates by 50 basis points (bps) for the sixth consecutive time, and Federal Reserves (Fed) decided to raise another 25bps with projection of no rate cut for the rest of the year amid the market turmoil in March.

Figure 3: Central banks' policy rates

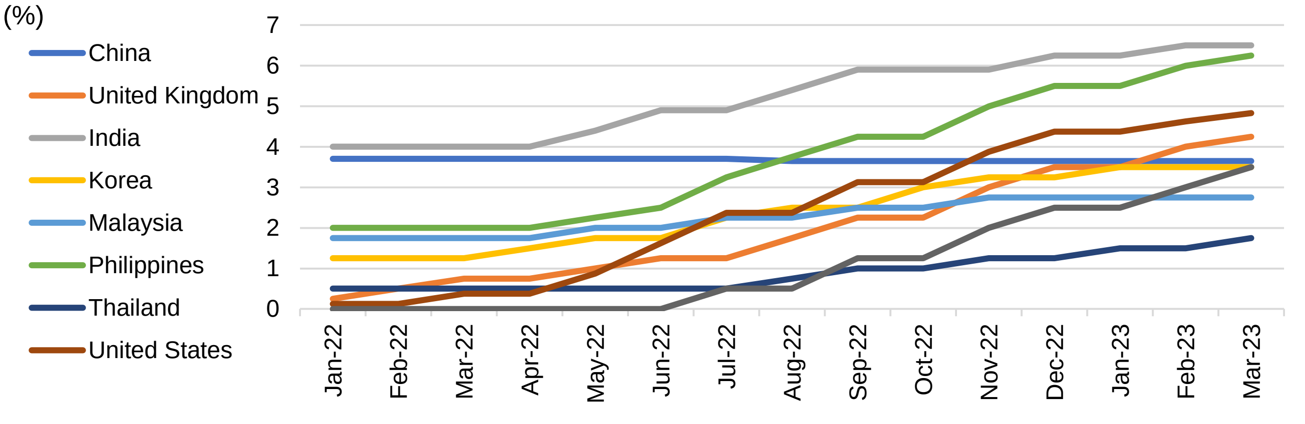
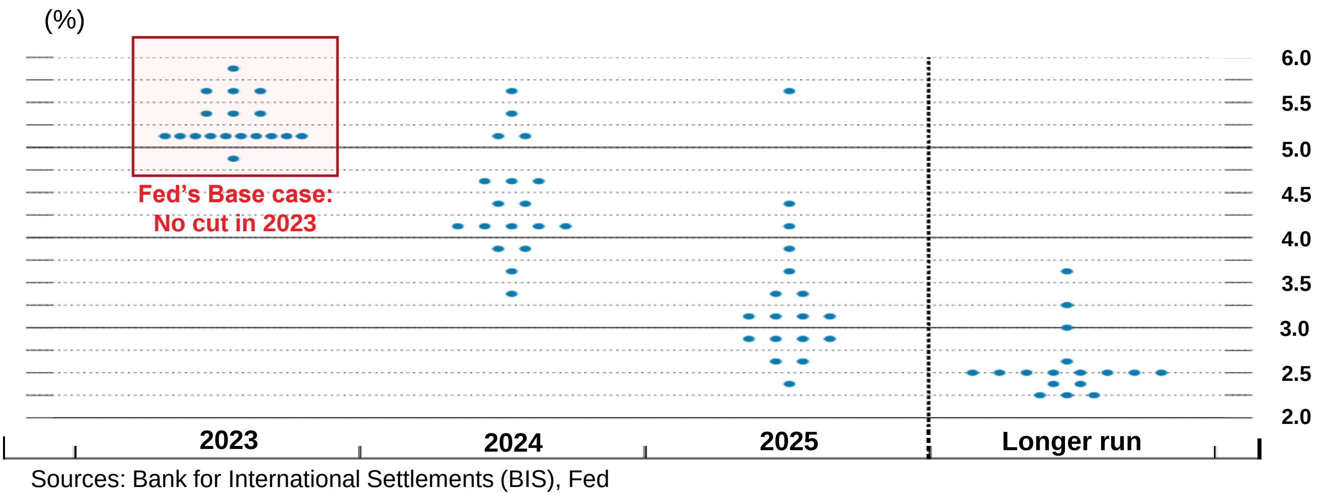


Figure 4: FOMC dot plot: Midpoint of target range or target level for Fed Funds rate



Sources: Bank for International Settlements (BIS), Fed

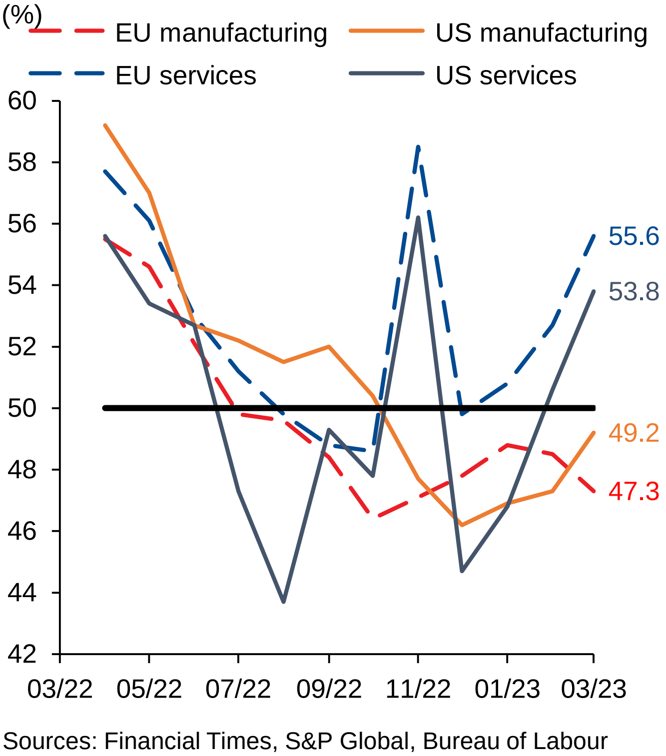
Global Economy *(Cont.)*

Central banks' decisions are rationalised by resilient financial system and high inflation pressure

Fed still puts a priority on inflation risk, as following a string of financial turmoil in the US, Fed Chairman Powell hosted a press conference at the most recent meeting in March, and said that "The US banking system is sound and resilient". He also expressed his opinion that SVB's management failure was an anomaly in terms of the proportion of uninsured deposits in total deposits and duration risk. Meanwhile, although goods inflation and housing inflation are not concerning Powell, he reiterated that he had not seen a disinflation in core non-housing services yet, which would require more softening in demand and labour market, especially service sector. Unfortunately, Service's Purchasing Manager Index (PMI) in March reached 53.8, this is the second month in a row that this index has been above 50 benchmark and been the highest figure since May 2022.

The expansion of Eurozone business activities in March was more than expected, mainly driven by service sector. Particularly, while Manufacturing's PMI rating dropped to a four-month low, service sector's score rose to its highest level in ten months. This partially explained why ECB President Christine Lagarde said headline inflation would decline steeply this year, yet core inflation pressure has remained strong.

Figure 5: S&P Purchasing Manager index



Sources: Financial Times, S&P Global, Bureau of Labour Statistics (BLS), ECB

Figure 6: US Inflation

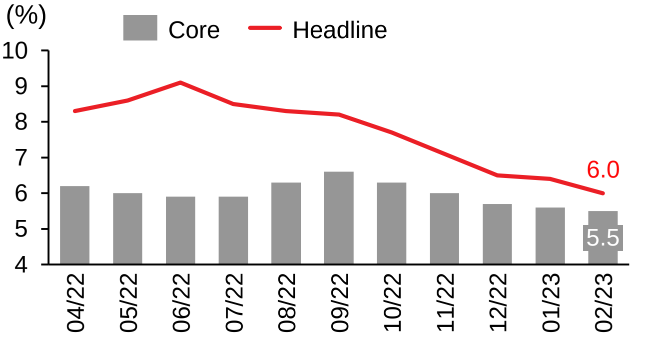
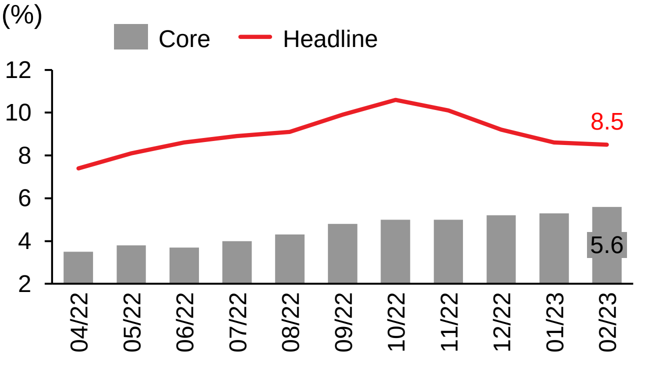


Figure 7: EU Inflation



Section 2

Global Economy *(Cont.)*

Our view stands with market pricing rate, which is more optimistic than Fed's, with numerous cuts expected this year

Although Powell emphasised that "rate cuts are not in our base case" for the remainder of the year, market pricing and our view suggest otherwise. Specifically, the market is anticipating rate cuts of 50 bps in total till the end of 2023, after a rise in May's meeting, according to data from Bloomberg's implied Fed Funds rate, and there are reasons why this expectation is on the correct track.

Powell's hawkish tone has been softened in the last Fed's meeting from "ongoing rate increasing" to "may and some rate hikes" as the result of unpredictable effects of tighter credit conditions on the economy. According to numerous economic literatures, credit crunch will slow down economic activities because banks significantly tighten their lending standards. Thus, there is less money for business and household to invest and spend.

Several indicators in February also show the softening in US economic activities. Unemployment rate increased from 3.4% to 3.6% after 4 months decreasing consecutively, and stayed above market expectation of 3.4 %. Additionally, demand side of the economy has suffered from -0.4% month-over-month (MoM) growth rate in retail sales. Producer price inflation for final demand decreased by 0.1% MoM, underperforming market expectations of a 0.3% rise.

Figure 8: Implied market Fed Funds rate on 3/4/2023

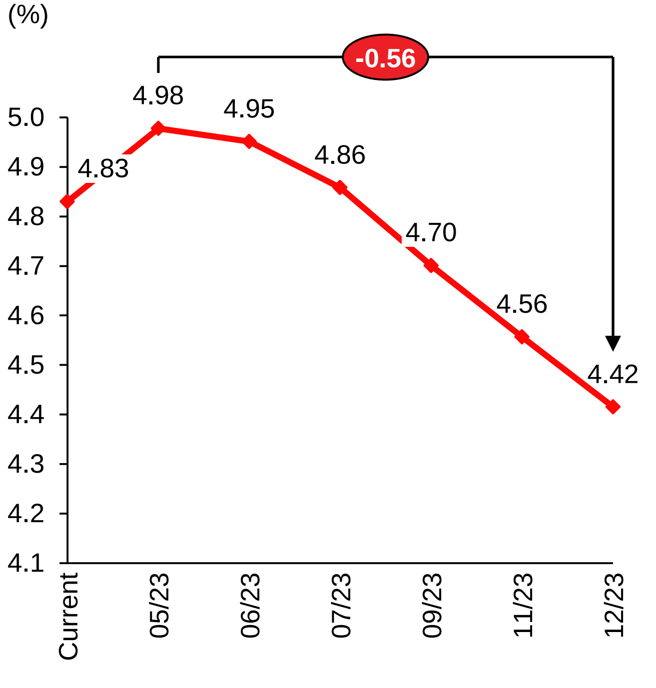
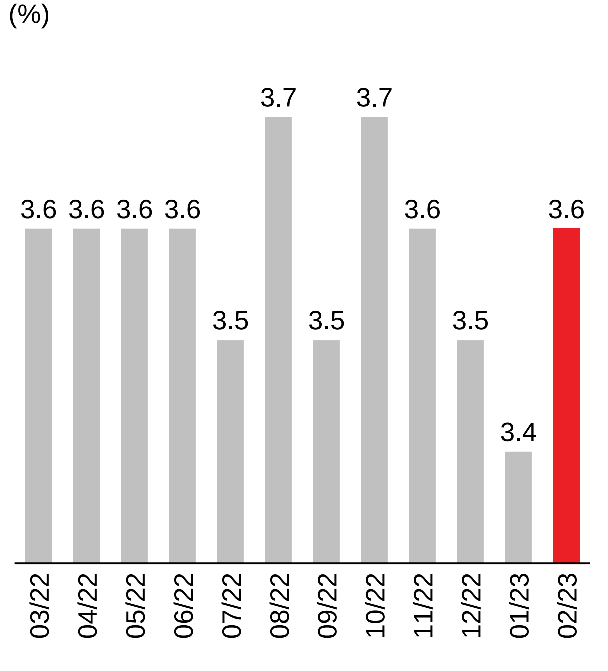


Figure 9: US unemployment rate



Sources: Financial Times, S&P Global, BLS, ECB

Section 3

Vietnam’s economy

The global economy slowdown since last quarter of 2022 has weakened the external demand for Vietnam’s goods as seen by 1Q2023 negative export growth, but service sector has been regarded as the primary engine of Vietnam's economic growth

Vietnam's economy has been severely impacted by the global downturn due to the country's high degree of openness

According to Fitch Solution, in terms of trade openness, Vietnam ranked the second place in the region and the fifth one globally. Hence, given that global demand has faltered, Vietnam’s manufacturing sector has plummeted.

According to General Statistic Office (GSO), compared to the first quarter last year, both export and import values witnessed negative growth rates at -11.9% and -14.9% respectively in 1Q2023. Specifically, major export industries declined substantially. There existed negative growth rates of wooden products at -28.3%, apparels at -17.4%, electronic products at -10.9% and mobile phones & parts at -15%. Real value added of manufacturing industry fell by 0.37% in 1Q2023, significantly lower than 2014-2019 average growth rate of 10.4%. Notably, since 2008, there have been only other two quarters that the industry experienced negative growth rates (-0.30% in 1Q2009, -3.24% in 3Q2021).

S&P Manufacturing PMI in March fell again to 47.7 which has been consistently below 50 benchmark since November 2022 except for last February (due to post-Tet period). These declines were primarily caused by a lack of new export orders and new orders.

Figure 10: S&P Manufacturing PMI

(index)

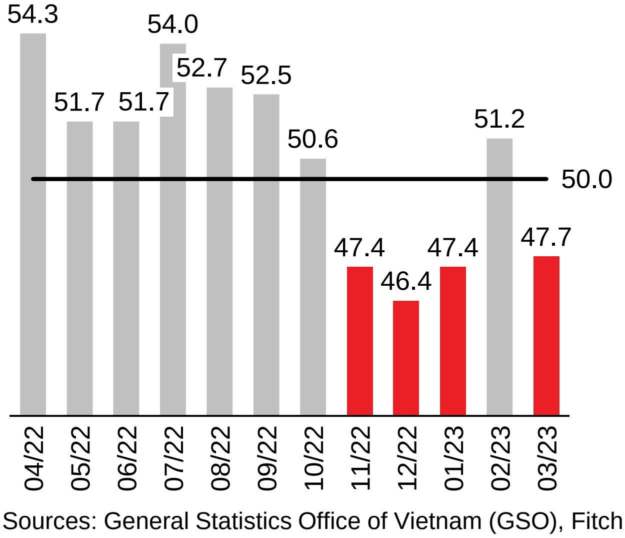
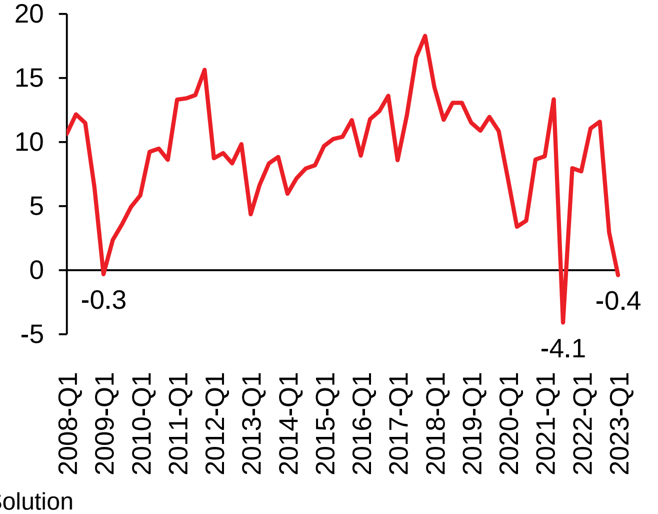


Figure 11: Manufacturing’s real value-added growth

(%, YoY)



Sources: General Statistics Office of Vietnam (GSO), Fitch Solution

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Vietnam's economy *(Cont.)*

Foreign investments are also affected by global events

Both registered and disbursed Foreign Direct Investments (FDI) decreased significantly in 1Q2023. In the first quarter, registered FDI dropped by 42% year over year (YoY). Particularly, registered FDI in the industrial sector, which made up 81% of total FDI, fell by 31%, and FDI in real estate plummeted by 79%. The Ministry of Planning and Investment explained that this phenomenon was caused by large-scale FDI projects like Lego project taking place in 2022. However, the registered FDI amount in 2022 was also smaller than that in 2021. The reduction in 2022 registered FDI mainly resulted in the decrease in 1Q2023 FDI disbursement. Notably, it is the second time that FDI disbursement has fallen in the first quarter on YoY basis since 2015, while the first time occurred in 2020 as a result of COVID-19 pandemic.

Figure 12: Registered FDI in the first quarter

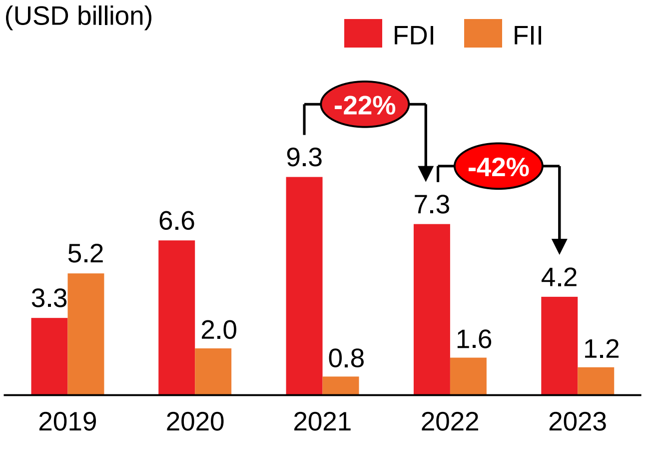
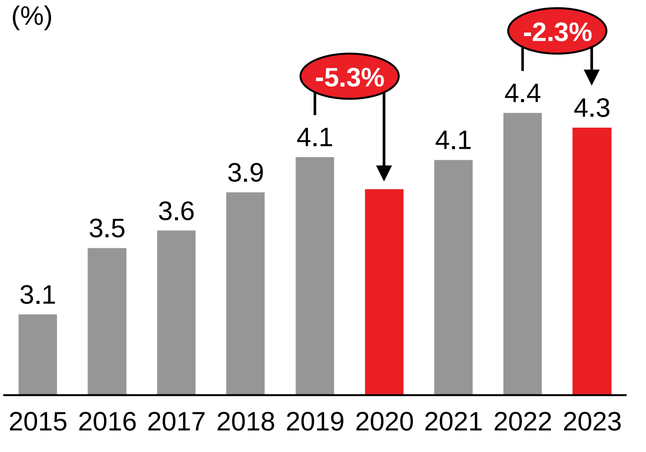


Figure 13: FDI disbursement in the first quarter



Demand side of the economy has been resilient, thanks to the strong recovery of tourism activities

Regarding demand side of the economy, retail sales of goods and services in 1Q2023 recorded YoY growth at 13.9% in nominal term and 10.3% if inflation-adjusted. These moderate growths were mainly driven by accommodation and travelling services as they increased by 28.4% and 119.8% correspondingly. That was also reflected in 1Q2023 real value added of service sector, which grew by 6.79% and contributed significantly to overall GDP by 95.91%.

Tourism activities are expected to be the key economic sector in 2023. The number of domestic tourists in 1Q2023 increased by 5.3% YoY, and was 13.6% higher than pre-COVID-19 level. While the number of international tourists from Europe and China has continued its increasing trend since Vietnam's reopening in March 2022. Although global slowdown, especially in Western countries, surely impact our

Sources: GSO, kinhtetrunguong.vn

Section 3

Vietnam's economy *(Cont.)*

tourism activities, we expect more than 2 million Chinese tourists will come to Vietnam in the next 9 months as China's government has organised group tours to Vietnam since March 15th. As a result, service sector is expected to continue performing well, supporting Vietnamese economy amid global economic slowdown.

We forecast GDP growth in 2023 would be in the 4.3% - 4.7% range

As mentioned in previous report (Report link), given low economic performance in 1Q2023, 2023 GDP growth target of 6.5% set by the Government is expected to be hardly achieved. Our forecast for GDP growth is in the 4.3% - 4.7% range. If public investments from State budget is strongly disbursed in the early months and lending rates significantly decrease, the growth could move closer to its 6.5% target.

Figure 14: Retail sales growth in 1Q2023

(%, YoY)

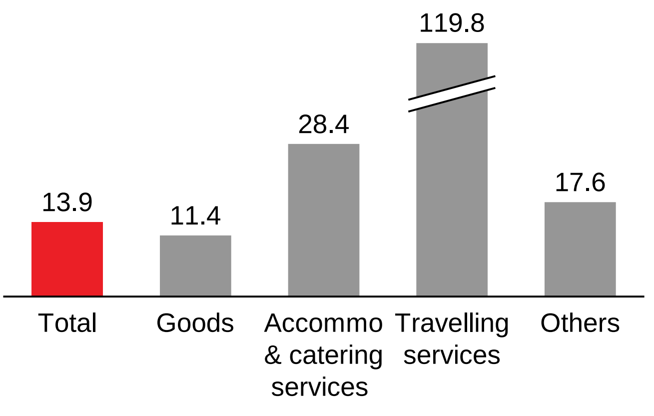
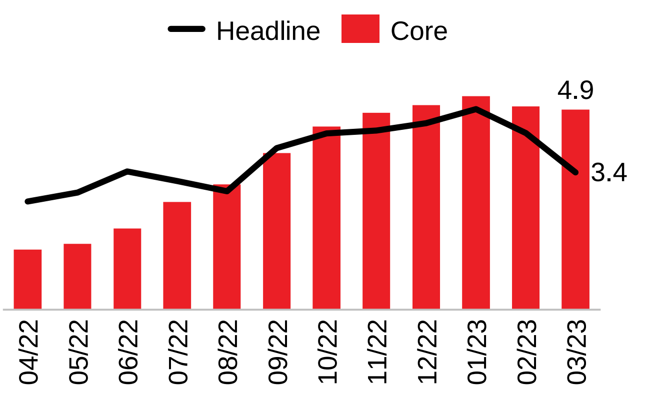


Figure 15: Inflation

(%, YoY)



We forecast 2023 average inflation of Vietnam to be at 3.7%

Thanks to great management of the Government and central bank, Vietnam's price level is well maintained, despite the fact that many countries are experiencing high inflation. Price level slightly reduced on MoM basis as headline inflation decreased by 0.23%, which pushed YoY value to 3.35% level, the first time since September 2022. Significant reduction in education-related price by 1.71% MoM was the key driver for the overall drop. Meanwhile, food price and gasoline price also slightly decreased. Notably, core inflation witnessed the second month disinflation as YoY value fell to 4.88% from 4.96% in previous month and 5.21% in January. Going forward, given global slowdown outlook, we expect global crude oil (brent) to stay in range of USD 70 – USD 90 per barrel. Meanwhile, prices of items supervised by the Government such as electricity, education, healthcare, etc. are expected to be well monitored, therefore SBV's 4.5% target is completely feasible.

Source: GSO

Vietnam's economy *(Cont.)*

State Bank of Vietnam proactively cut interest rates to support the economy

Due to low economic activities and high borrowing costs, credit growth in 1Q2023 increased only by 2.06% which was much slower than growth rates at 5.04% in 1Q2022 and 2.3% in 1Q2021. This came to attention of the Government and SBV, as two immediate policy rate reductions were implemented in March, which possibly makes SBV one of the first few central banks in the world to lower interest rates. The key difference between Vietnam and many other countries is inflation stability as mentioned previously, which has given SBV good chances to act early in order to support the economy.

Following SBV's rate cuts, interbank market has also calmed down as its 1-week tenor rate fell to 1.77% on March 28th from 6.50% early that month. Especially, SBV has also stopped calling notes which previously aimed at keeping VND – USD rate gap more favourable in order to stabilise foreign exchange (FX) rate. Yet, since the first cut, FX has remained stable.

Deposit rates could potentially drop by further 50bps under suitable circumstances

According to our estimation, G18* quoted deposit rates dropped by 30 bps for 6-month tenor and 26 bps for 12-month tenor just in March partly due to SBV's actions. On year-to-date (YTD) basis, they decreased by 43 bps and 38 bps, respectively. Based on the assumption of stable VNDUSD and inflation for the rest of the year, SBV could potentially implement further cuts to support GDP growth rate target at 6.5% set by the Government, which would allow deposit rates to drop towards pre-COVID-19 level.

Figure 16: Interbank rates

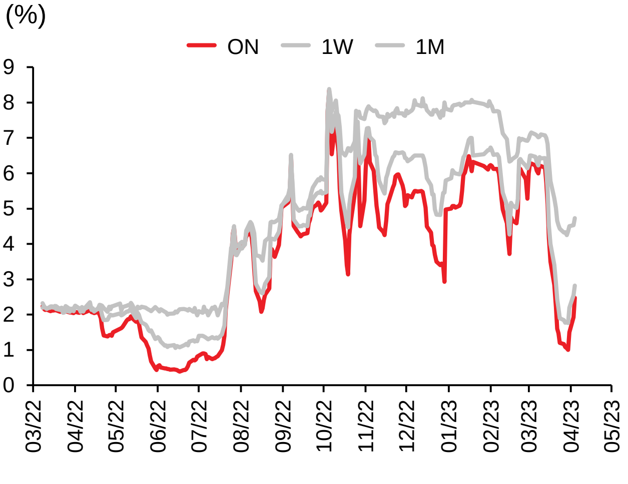
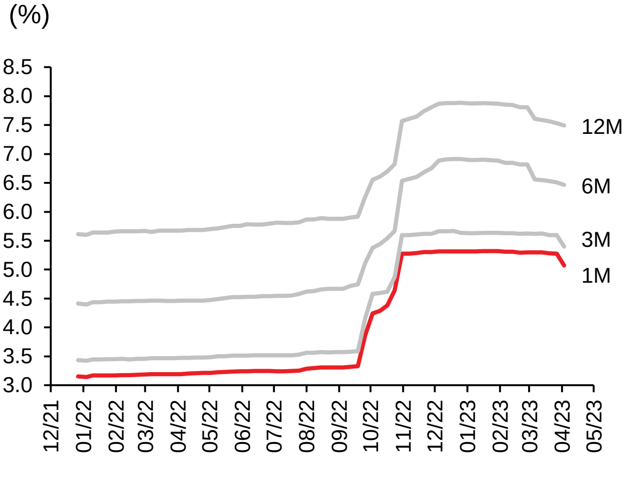


Figure 17: G18 deposit rates in Vietnam



Sources: Reuters and TCB Analysis team

(*) G18 includes 4 SOBs and top 14 joint-stock banks

Section 3

Vietnam's economy *(Cont.)*

We and the market expect Dollar index (DXY) depreciation

In line with several rate cuts in 2023 anticipated by the market, DXY is expected to depreciate significantly from now on. The recent DXY reduction was foreseen as ECB has been more aggressive than Fed in hiking policy rates. This behaviour resulted from the fact that Eurozone is still suffering core inflation while the disinflation has happened in both US headline and core CPI on YoY basis.

Our findings show there is a highly positive correlation between DXY and USDVND (70%), hence, DXY downward trend has been significantly supporting for the recent VND appreciation and is expected to continue in the longer term. This partially explains why SBV's recent rate cuts have not triggered VND depreciation.

For the rest of the year, VND is expected to move sideways and even slightly appreciate

Given the global slowdown, import has been decreasing at a much faster rate than export as mentioned previously, leading to big trade surplus. Particularly, trade surplus was more than USD 4 billion in 1Q2023, which was higher than USD 1.5 billion in 1Q2022 and USD 2.8 billion in 1Q2021. We do not expect the strong recovery of global activities in the near future, which means firm shall use up their input inventories and causes import to decrease strongly. Thus, trade balance is predicted to sustain its surplus trend for the rest of the year. Although FDI has reduced considerably as aforementioned, there are several inflows from M&A deals such as Vpbank's, Vincom Retails's, etc. which surely support SBV to expand its foreign reserves.

Figure 18: DXY forecast by Bloomberg's survey

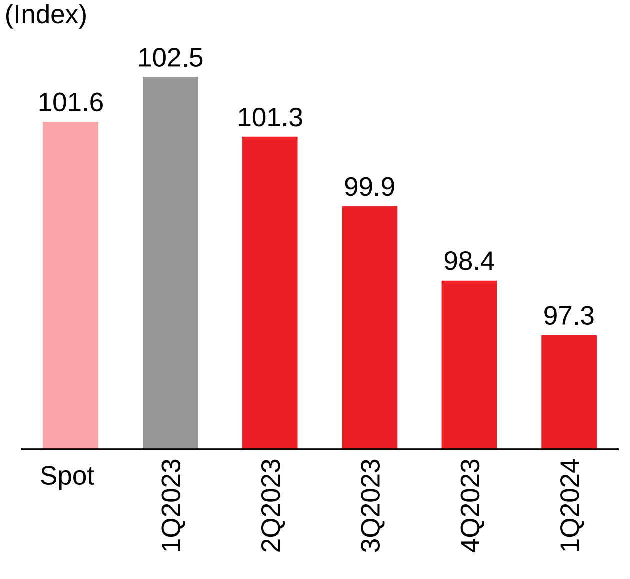
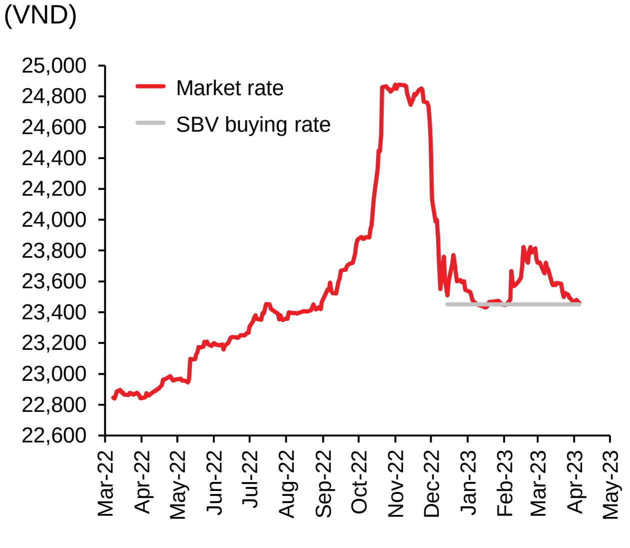


Figure 19: USDVND developments



Sources: Reuters and TCB Analysis team

Section 4

Appendix

World macroeconomic and financial market updates

Indicators	Country	Unit	2022	2022 03	04	05	06	07	08	09	10	11	12	2023 01	02	03
Real GDP Growth	US	%, YoY, Quarterly	2.1	3.7			1.8			1.9			0.9			
	EU	%, YoY, Quarterly	4.0	5.4			4.2			2.3			1.8			
	China	%, YoY, Quarterly	3.0	4.8			0.4			3.9			2.9			
	Japan	%, YoY, Quarterly	1.0	0.6			1.4			1.5			0.4			
CPI	US	%, YoY, Monthly	8.0	8.5	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	6.4	6.0	
	EU	%, YoY, Monthly	8.4	7.4	7.4	8.1	8.6	8.9	9.1	9.9	10.6	10.1	9.2	8.6	8.5	
	China	%, YoY, Monthly	2.0	1.5	2.1	2.1	2.5	2.7	2.5	2.8	2.1	1.6	1.8	2.1	1.0	
	Japan	%, YoY, Monthly	2.5	1.2	2.5	2.5	2.4	2.6	3.0	3.0	3.7	3.8	4.0	4.3	3.3	
Fed funds target rate		%, End of month	5.0	3.5	3.5	4.0	4.8	5.5	5.5	6.3	6.3	7.0	7.5	7.5	7.8	8.0
DXY		Index, Monthly Average	104.4	98.5	100.7	103.1	103.9	106.9	107.1	110.7	111.9	108.0	104.5	102.7	103.7	103.8
USDCNY		Index, Monthly Average	6.7	6.3	6.4	6.7	6.7	6.7	6.8	7.0	7.2	7.2	7.0	6.8	6.8	6.9
10Y UST Yields		%, Monthly Average	2.8	2.1	2.5	2.6	3.0	2.8	2.9	3.4	3.5	3.5	3.5	3.2	3.8	3.7
WTI Oil price		USD/barrel, Monthly Average	91.8	108.3	101.6	104.3	109.1	94.7	91.5	80.0	87.0	80.6	76.5	74.4	76.9	73.4

Source: Reuters

Vietnam macroeconomic and financial market updates

Indicators	Unit	2022	2022 03	04	05	06	07	08	09	10	11	12	2023 01	02	03
Real GDP growth	%, Quaterly, YoY	8.0	5.1			7.8			13.7			5.9			3.3
IIP	%, Monthly, YoY	7.8	9.1	11.1	10.4	11.5	11.2	13.3	10.3	5.5	3.5	0.2	-8.0	7.2	-1.6
Headline CPI	%, Monthly, YoY	3.1	2.4	2.6	2.9	3.4	3.1	2.9	3.9	4.3	4.4	4.5	4.9	4.3	3.4
Retail sales growth	%, Monthly, YoY	19.8	9.4	12.1	22.6	27.3	42.6	50.2	36.1	17.1	17.5	17.1	20.0	13.2	13.4
Registered FDI	USD bio, Monthly	22.6	3.0	1.7	0.7	2.0	1.2	0.9	1.6	3.3	2.4	1.5	1.5	0.8	1.9
Disbursed FDI	USD bio, Monthly	22.4	1.7	1.5	1.8	2.4	1.5	1.2	2.6	2.1	2.2	2.7	1.4	1.2	1.8
Trade exports	USD bio, Monthly	371.3	34.6	33.4	30.8	32.7	31.3	35.3	29.7	30.6	29.2	29.1	23.6	26.1	29.7
Trade imports	USD bio, Monthly	358.9	32.5	32.3	32.9	32.4	31.0	30.9	28.5	27.8	28.2	27.4	22.9	23.3	28.3
Trade balance	USD bio, Monthly	12.4	2.0	1.1	-2.1	0.3	0.3	4.4	1.3	2.8	1.1	1.7	0.7	2.8	1.4
Deposit growth*	%, YTD	6.0	3.4	3.4	3.8	4.8	4.4	4.0	5.0	5.0	5.0	6.0		0.1	0.8
Credit growth**	%, YTD	14.5	6.0	7.2	8.1	9.4	9.5	9.5	10.5	11.5	12.1	14.5		0.8	2.1
10Y Government bond yields	%, Monthly Average	3.5	2.3	2.9	3.1	3.2	3.3	3.5	4.0	4.9	4.9	4.9	4.6	4.2	4.0
1W Interbank rate	%, Monthly Average	3.5	2.2	2.1	1.8	1.2	2.1	3.8	5.1	6.5	6.4	5.9	6.4	5.8	4.3
6M Deposit rate***	%, Monthly Average	5.0	4.5	4.5	4.5	4.5	4.6	4.6	4.8	5.7	6.7	6.9	6.9	6.8	6.6
USDVND	Monthly Average	23,431	22,861	22,919	23,100	23,221	23,383	23,407	23,657	24,340	24,817	23,736	23,460	23,651	23,592

Source: GSO, Customs, VBMA, Reuters, TCB MA

Note:

* YTD data as of 28/2

** Weighted average of 18 banks

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