

## The recovery likely to remain tough

- GDP grew 5.3% yoy in 3Q23, making the 9M23 growth pace to 4.4% yoy.
- Domestic rice price rise in tandem with oil price hike reasons are key factors to be attributed for the increase of 3.6% yoy of CPI in Sep.
- The VND/USD exchange rate reached its peak in 2023 (+3.6% ytd). We forecast that the exchange rate will range between 24,300-24,500 VND/USD toward year-end.

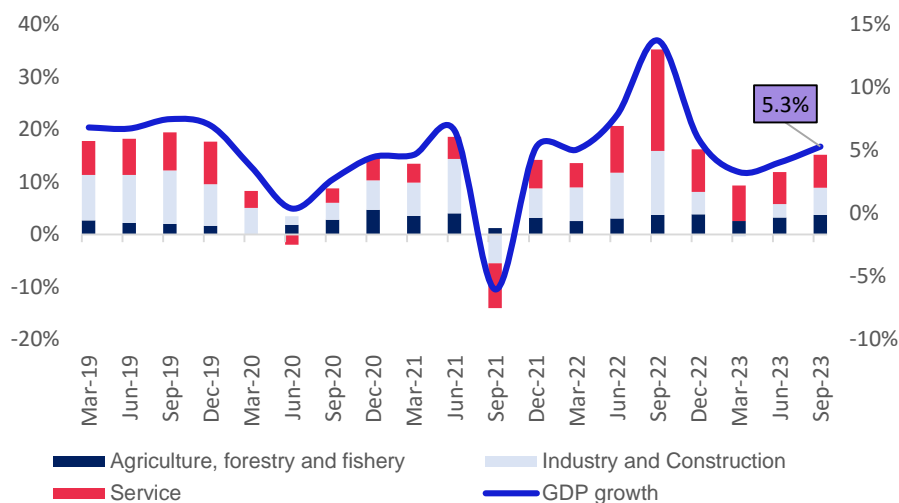
### The growth rebound extended into 3Q23

Gross domestic product (GDP) grew 5.3% yoy in 3Q23 (1Q: +3.2%, 2Q: +4.0%). In which, the industrial and construction sector has recovered quite well increased by 5.1%, contributing 38.6%; Of which, a significant contribution to growth was electricity, gas, steam and air conditioning supply, which increased by nearly 6% in the 3<sup>rd</sup> quarter. Service sector increased by 6.2%, contributing 53.3%. Of which, some core industries have stable growth such as wholesales and retail trade; vehicles and motorcycles repairs (+8.1% yoy), transportation and storage (+9.6% yoy) and accommodation & catering services (+8.7% yoy). the agriculture, forestry and fishery sector increased by 3.72%, contributing 8.03% to the increase in total added value of the whole economy; This increase was contributed by strong exports of some commodities such as vegetables, cashews and rice.

GDP in the first 9M23 increased by 4.24% yoy, below the goal of 6.5% set at the start of the year, and also a low growth in the last 4 years.

We lowered our 2023 GDP forecast to 4.7% - 4.8%, in which we forecast that Q4 GDP to grow by 6.1% - 6.3% based on the low base of the same period last year, as well as manufacturing activity will improve thanks to improvement in exports as the demand for inventory hoarding by the US and Europe countries rebounds from low levels and the number of orders will return due to shopping needs during the year-end holidays.

Figure 1: GDP growth in sectors (yoy%)



Source: GSO, MBS Research

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## Inflation continued to inch up in Sep as tuition fees and demand for stationery soared during peak month

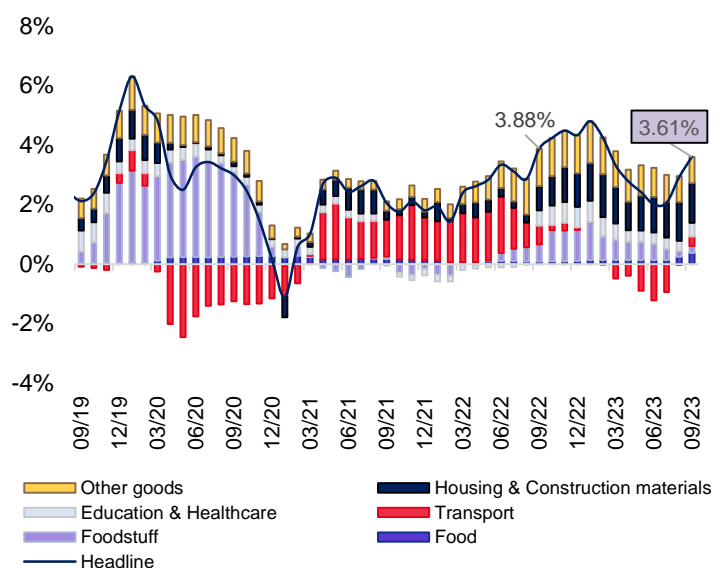
According to General Statistics Office (GSO), Vietnam's CPI in Sep inched up 1.0% mom and 3.6% yoy which is lower than the increase of 3.9% seen in Sep last year, showing that domestic inflation is still under control when domestic import and export decreases, helping the domestic economy reduce pressure from inflationary import channels. For the first 9M23, average CPI increased by 3.1% yoy; meanwhile, core inflation increased by 4.4% yoy.

The acceleration is on the back of construction materials price and rent house, which put pressure on housing and construction materials group (+7.3% yoy). Food and catering services increased by 2.8% yoy, of which: Food basket increased by 10.5% yoy due to the domestic price of rice at a high level following world rice prices. In addition, the increase in tuition fees in some localities pushed the education group index up by 7.2% yoy.

The price of airplane fuel has grown due to the recent comeback in gasoline prices (+5.6% yoy in Sep), which has caused the airline ticket price index to rise by 71.5% yoy. The rise in exchange rates has had an impact on airline expenses, combined with increased travel demand during holidays and summer vacations, pushing the CPI up in recent months, leading the average CPI of the year back to the uptrend. In addition, the increase in cement and sand prices in line with the price of input materials along with the high rent house has pushed up the price index, pushing the average price index of the housing and construction materials group up by 6.73%, greatly affecting the overall CPI.

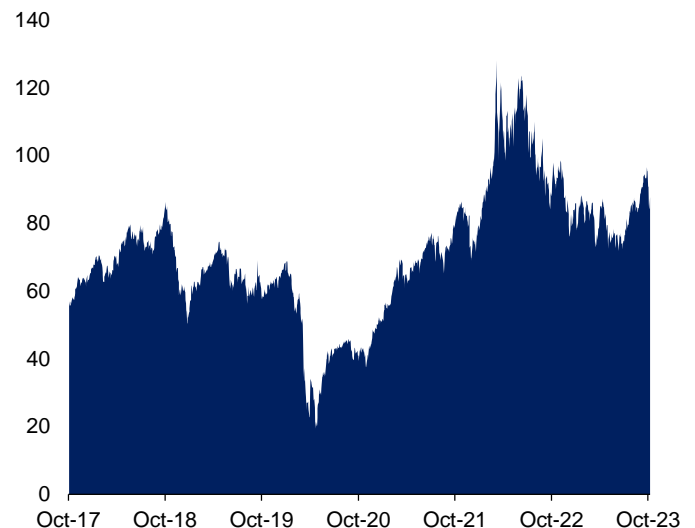
We expect inflation slightly to pick up in the upcoming months and average at 3.7% for the whole year 2023 based on following factors. First, we observed that oil prices so far have climbed 29% from its bottom in Jun and be expected to stay above USD 100/bbl during winter in conflict between Hamas and Israel. Second, due to the effects of rice export restrictions globally, rice prices will rise. Finally, the VND/USD exchange rate rose to 24,400 VND/USD (+3.5% since the beginning of the year), which has put pressure on price of most import products.

Figure 2: Contribution of commodity groups to CPI growth (%)



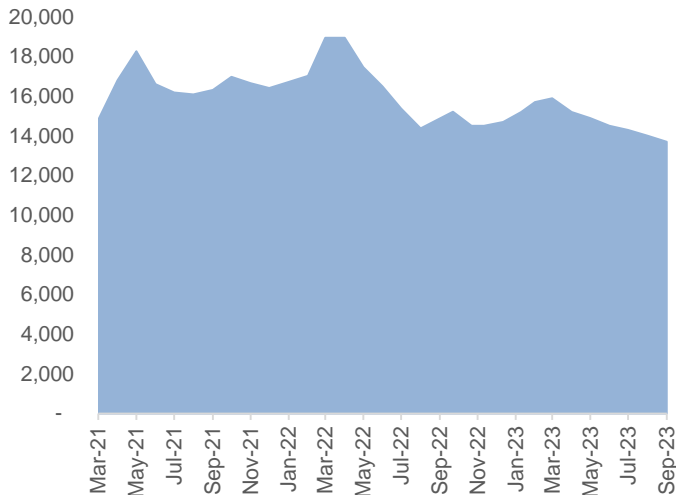
Source: GSO, MBS Research

Figure 3: Brent crude oil price (USD/Barrel)



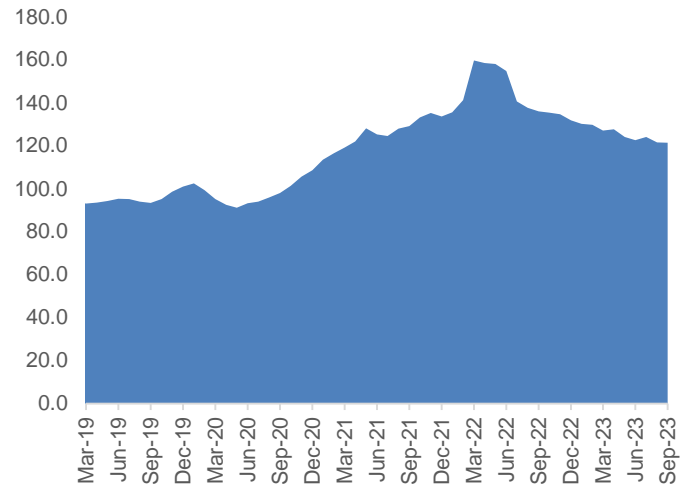
Source: Bloomberg, MBS Research

Figure 4: Steel price (Mn VND/ton)



Source: MBS Research

Figure 5: FAO food price index



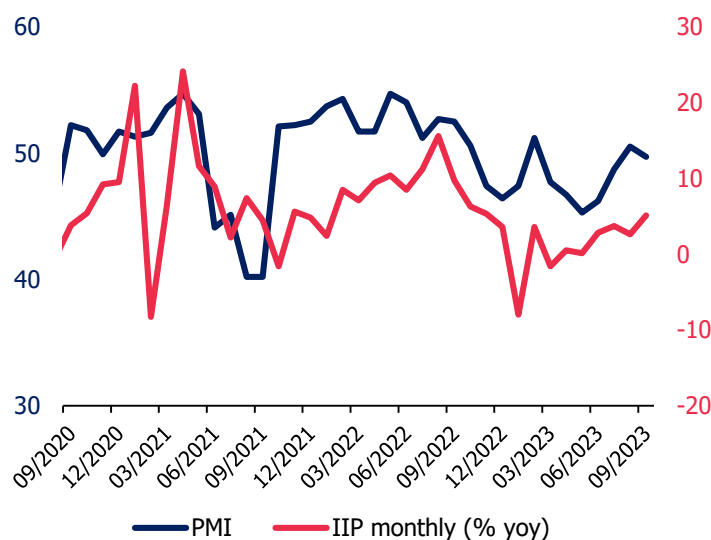
Source: FAO, MBS Research

## Industrial activities picked up

Industrial production increased 0.1% mom and 2.6% yoy in Sep. For the first 9M23, industrial production decreased by 0.3% yoy, of which, mining and quarrying delivered a minus decrease of 6.6% yoy (vs. an increase of 16.3% yoy in 9M22).

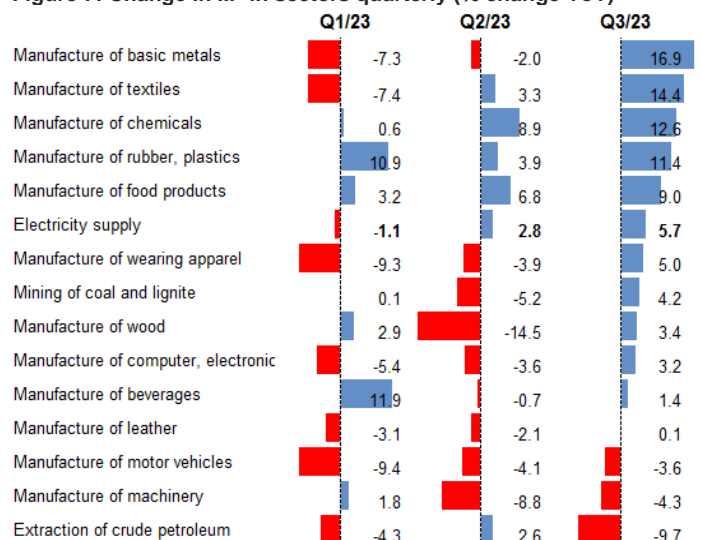
Vietnam's PMI posted 49.7 in Sep, back below the 50 mark following a reading of 50.5 in Aug. Despite the continued pick-up in demand, manufacturers signalled that new order receipts remained relatively modest, leading to a scaling back of production. Output was down slightly following August's rise, with production now having fallen in six of the past seven months. Employment decreased for the seventh month running. Although modest, the rate of job cuts was the most marked since June.

Figure 6: Vietnam's PMI manufacturing and IIP (% change YoY)



Source: Bloomberg, MBS Research

Figure 7: Change in IIP in sectors quarterly (% change YoY)



Source: GSO, MBS Research

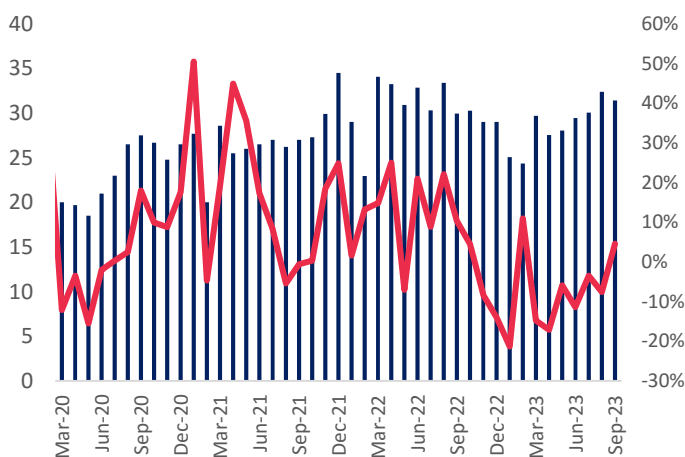
## Exports recorded positive growth in Sep

In Sep, export turnover of goods shrunk 4.1% mom, up 4.6% yoy to USD 31.4bn. This is the first month since February this year that exports recorded positive growth over the same period. For 9M23, export turnover decreased 8% yoy to US\$ 259.67bn. Top largest export products experienced sharp drop across the board, including: chemicals (-25.3% yoy); footwear (-18.2% yoy); woods and product (-21.3% yoy); fishery (-21.7% yoy). On the bright side, exports still have some highlights in growth including rice exports (+40.4% yoy), means of transport and components (+16.5% yoy), vegetables and fruits (+71% yoy).

In term of export destinations, export turnover to U.S. decreased 18% yoy to USD 70.9bn, following by E.U with USD 32.8bn (-8.2% yoy); export to Japan reach USD 17.3bn (-3% yoy).

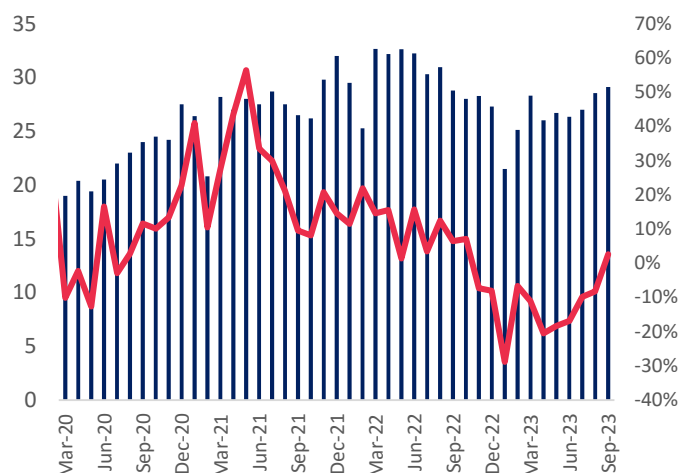
Import turnover of goods was about USD 29.1bn in Sep (+2.6% yoy) and USD 237.9bn in 9M23, (-13.8% yoy). China remained the largest import market of Viet Nam with a turnover of USD 36.9bn. Two import products totaling more than USD 10bn in value in 9M23 (accounting for 39.3% of total revenue), which are electronic goods, computers and their parts and machinery, instrument, accessory, respectively, decreased by 1.5% and 11.1%.

Figure 8: Export market of Vietnam in monthly (USD bn)



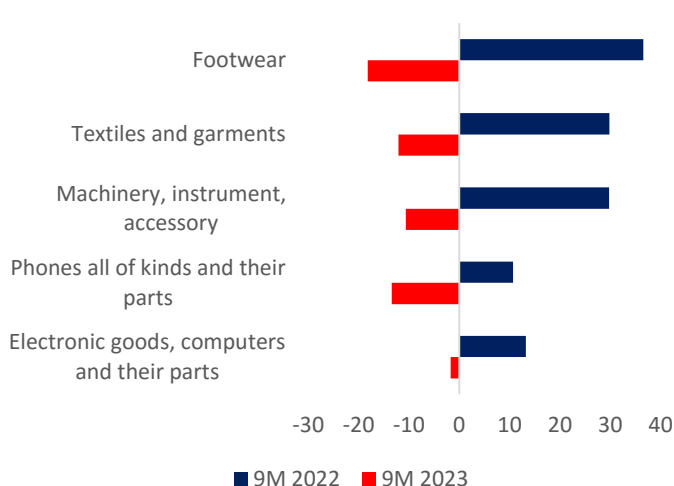
Source: GSO, MBS Research

Figure 9: Import market of Vietnam in monthly (USD bn)



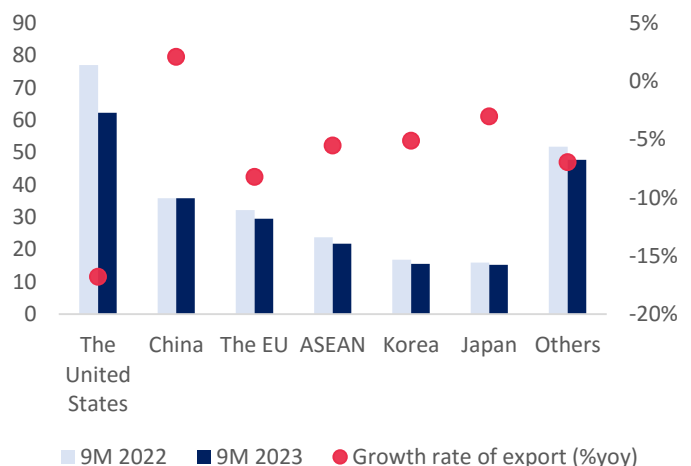
Source: GSO, MBS Research

Figure 10: Growth of major export products in 9M2023 (%yoy)



Source: GSO, MBS Research

Figure 11: Export market of Vietnam in 9M.2023 (USD bn)



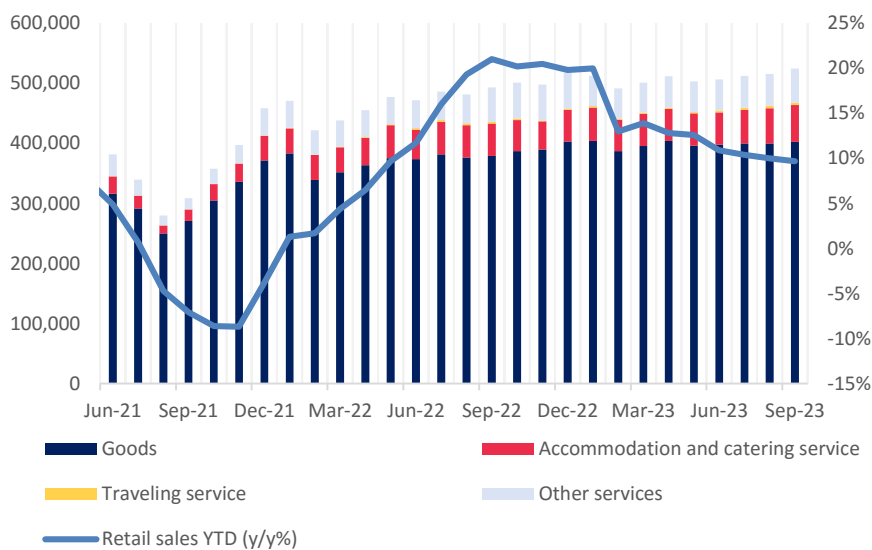
Source: GSO, MBS Research

## Domestic consumer stayed healthy thanks to the recovery of tourism

Retail sales of consumer goods and services growth soared to +7.5% yoy, +2.4% mom due to commercial activity in Sep was more active than the previous month due to the Vietnam National Day and students entering the beginning of the new school year.

For 9M23, the total retail sales of consumer goods and services was estimated to increase by 7.3% yoy (excluding the price factor), of which, tourism revenue increased by 45% yoy. International visitors to Viet Nam 9M23 were estimated at 8.9mn arrivals, 4.7 times higher than the same period last year but still down 69% compared to the same period in 2019, the year no Covid-19 epidemic.

Figure 12: Retail sales of consumer goods and services (Trillion VND)



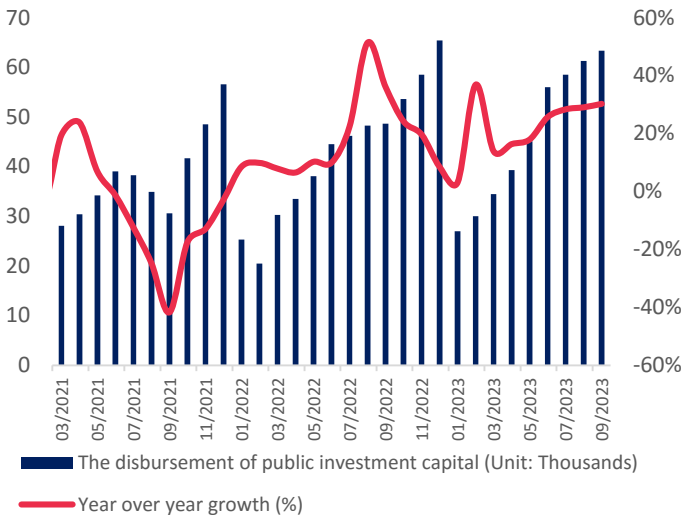
Source: GSO, MBS Research

## Both public investment and FDI accelerated in Sep

In Aug, newly registered FDI inflow grew 77% yoy, meanwhile disbursed FDI increased 7% yoy. For 9M23, realized FDI inched up modestly 2.2% yoy to USD 15.9bn, in which: Processing and manufacturing industry sector attracted USD 13.08bn of new FDI inflow (accounting ~ 82.2%), utilities attracted USD 1mn (accounting ~ 6.3%), and about USD 762.7mn for real estate sector (accounting ~ 4.8%). Notably, in Sep, investment projects in industrial zones (IZs) and economic zones (EZs) in Hai Phong, the Hai Phong Economic Zone Authority (HEZA) granted a new investment registration certificate to the ECOVANCE high-tech biodegradable materials factory project of SK Group (South Korea) with a total investment capital of USD 500mn.

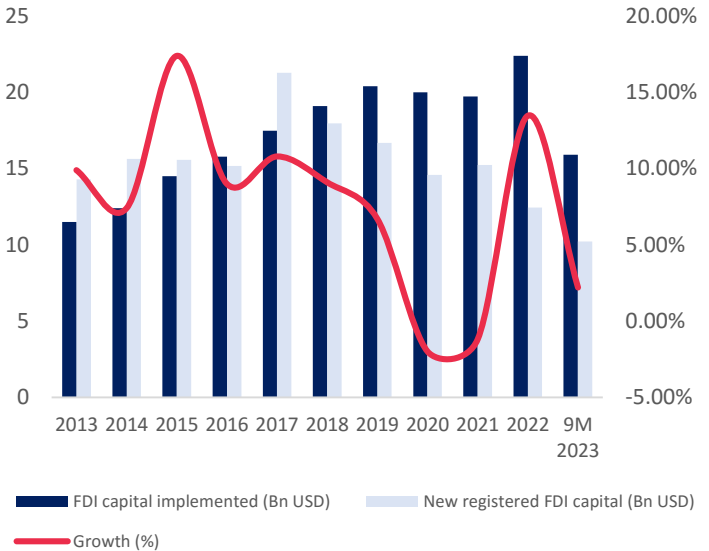
Disbursed state investment sped up 30% yoy in Sep to VND 63.4tn. For 9M23, state investment increased 23.5% yoy to VND 415.5.1tn, fulfilling 57.4% of Government's target.

Figure 13: Growth of realized investment capital from State budget



Source: GSO, MBS Research

Figure 14: Growth of foreign investment capital



Source: GSO, MBS Research

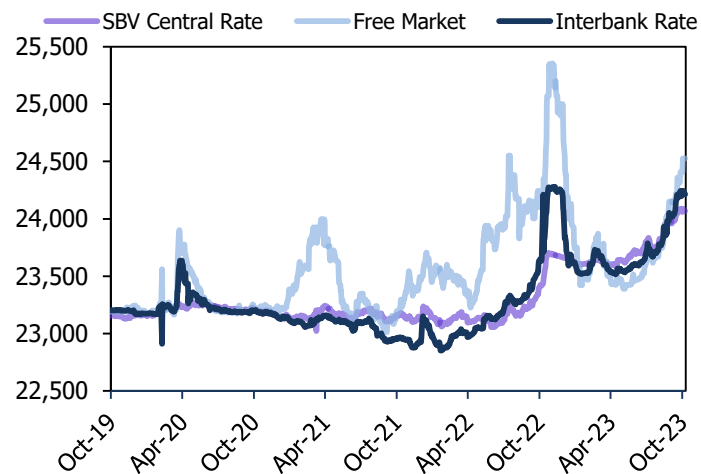
## Growing concern over currency weakness

The domestic exchange rate showed a strong upward trend during the month. The USD exchange rate on the free market has officially exceeded the mark of 24,500 VND/USD. The VND/USD exchange rate on the free market is currently trading at 24,525 VND/USD. The central and interest rates were respectively traded at VND 24,069 per USD and VND 24,215 per USD.

Latest data shows that the USD index has now returned to the 106 after reaching the 107 mark, the USD has been supported by the Fed continuing to show a hawkish stance and from economic data again supporting the view that Fed will keep interest rates higher for longer period of time. Treasury yields are at a 16-year high as investors predict tighter monetary policy will last longer due to widespread economic resilience, further strengthening the USD position in global currency markets.

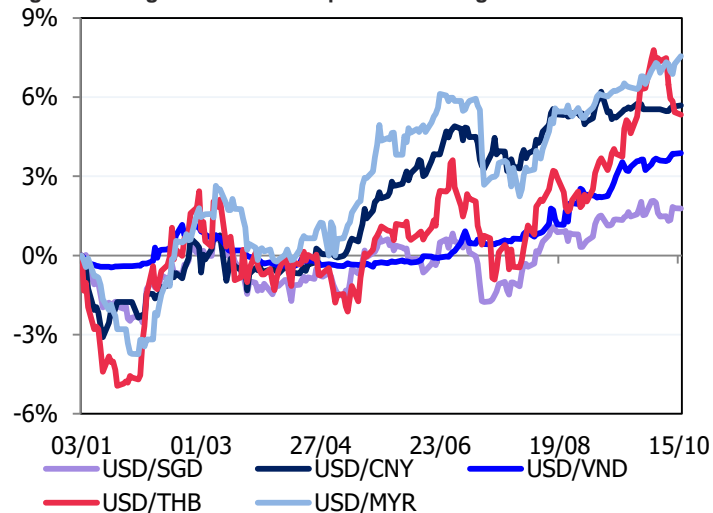
We expect that some positive macro factors adding up such as: The SBV continues using the open market (OMO) to manage the exchange rate by issuing T-bills with a net withdrawal of already more than VND 100,000bn; The trade surplus in the first 9M23 is estimated to reach USD 21.6bn; Remittances are expected to reach USD 14bn in 2023,... will contribute to stabilizing the pressure on exchange rate at the end of the year. We forecast that the exchange rate may fluctuate in the range of 24,300 - 24,500 VND/USD in the last months of the year, assuming the FED will continue to increase interest rates by another 25 bps in November.

Figure 15: VND/USD exchange rate



Source: SBV, Bloomberg, MBS Research

Figure 16: Regional currencies performance against USD



Source: Bloomberg, MBS Research



## Vietnam's economic indicators

Economic indicators	2018	2019	2020	2021	2022	2023F	2024F
<b>1. GDP, population &amp; income</b>							
Nominal GDP (USDbn)	281.3	310.1	334.3	346.6	366.1	408.8	476.9
Real GDP growth (%)	7.08	7.02	2.91	2.58	8.02	5.3	4.7
Exports of goods and services (% yoy)	13.8	8.1	6.5	19	10.6	-8	7
Imports of goods and services (% yoy)	11.5	7	3.6	26.5	8.4	-10	9
Population (mn people)	96.4	97.7	98.5	99.3	100	100.0	101.5
GDP per capita (USD)	2,992	3,267	3,491	3,586	3,756	4,163	4,707
Unemployment rate (%)	2.33	2.33	2.2	2.2	2.2	2.9	2.3
<b>2. Fiscal policy (%GDP)</b>							
Government debt	49.2	51.5	39.1	34.7	36.1	36.1	39.8
Public debt	43.1	38	39.5	38	39.5	38	32.3
Foreign debt	47.1	47.9	38.4	36.8	36	36	36.5
<b>3. Financial indicators</b>							
USD/VND exchange rate	23,180	23,228	23,115	23,145	23,612	24,100	23,600
Inflation rate (%)	3.5	2.8	3.2	1.8	3.15	3.43	3.5
Credit growth (%)	17.1	18.7	18.2	13.9	12.1	11	10
12-month deposit rate	7	7.2	6.8	5.8	8.5	6.3	6
Trade balance (USD bn)	7.2	9.9	19.1	4	11.2	22	12
Goods: Exports (USD bn)	244	263	281	336	371	340	366
Goods: Imports (USD bn)	262	332	360	322	354	322	354
Foreign reserve (USD bn)	55	78	94	109	86	95	110.5



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