

Strengthening recovery momentum

- Im-exports experience impressive growth towards the end of the year, but production prospects is still cautious as PMI remains below the 50-point threshold.
- USD/VND exchange rate continues to set new highs in the free market, while the global trend shows a resurgence in the value of the USD.
- GDP in the 4th quarter of 2023 was estimated to increase by 6.7% yoy, GDP in 2022 increased by 5.0% yoy.

Im-export activities are optimistic, key manufacturing industries increased

Industrial production increased 0.1% mom and 5.8% yoy in December, manufacturing enterprises make efforts to prepare goods for consumption at the end of the year. PMI improved to 48.9 from 47.3 last month, the pace of decline in the number of new orders slowed down compared to November when the number of new export orders was almost stable. Exports in December increased 13.1% yoy, the highest growth rate since the beginning of the year. Imports went up 12.3% yoy, indicating signs of a production rebound.

Inflation slightly rises for the month, meeting the annual target on average

CPI in December in 2023 grew 3.5% yoy while average CPI for 2023 increased 3.2% yoy, remains under control below the government target of 4.5%. We expect the average CPI in 2024 to range between 3.5% and 3.6%, while still being pressured by factors such as construction material prices and export rice prices show no signs of cooling; electricity prices rising twice in 2023 impacting prices of related commodities and services and oil prices are still affected by fluctuations in the world.

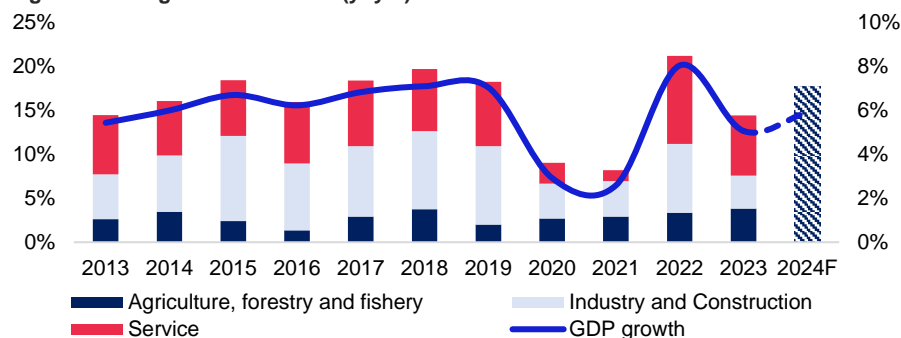
Consumption remains on the rise, tourism recovers beyond expectations

The growth rate of total retail sales and consumer service revenue in December increase 9.3% yoy and 2.6% mom. Tourism recovers strongly when in 2023, international visitors to our country reach 12.6 million people, 3.4 times more than in 2022, far exceeding the target of 8 million international visitors in 2023.

We forecast GDP growth in 2024 in the range of 5.9%-6.1%

GDP in the fourth quarter of 2023 maintains an upward trend from the beginning of the year with an increase of 6.7% and the average for the whole year 2023 reaches 5.05%, quite far from the government's target of 6.5%. We forecast GDP growth in 2024 to increase in the range of 5.9%-6.1% driven by the recovery from the manufacturing sector serving exports.

Figure 1: GDP growth in sectors (yoy%)



Source: GSO, MBS Research

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Strengthening recovery momentum

GDP sustains the upward trend to 4Q2023, showing a growth of 6.7% yoy.

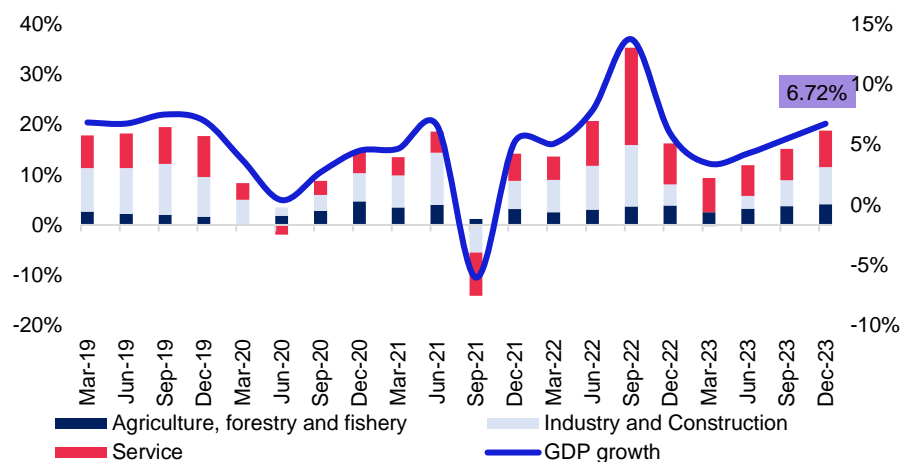
Gross domestic product (GDP) grew 6.7% yoy in 4Q23 (1Q: +3.4%, 2Q: +4.2%, 3Q: +5.4%).

In which, the industrial and construction sector has recovered quite well increased by 7.3%, contributing 42.5%; Of which, a significant contribution to growth was electricity, gas, steam and air conditioning supply and constructions, which increased by nearly 8% and 9% respectively in the 4th quarter. Service sector increased by 7.2%, contributing 49.9%. Of which, some core industries have stable growth such as wholesales and retail trade; vehicles and motorcycles repairs (+9.8% yoy), transportation and storage (+10% yoy) and accommodation & catering services (+9% yoy). The agriculture, forestry and fishery sector increased by 4.1%, contributing 7.5% 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 2023 was estimated to increase by 5.05% yoy, below the goal of 6.5% set, and also a low growth rate compared to the 8.0% increase in 2022.

Due to production activities improving because of some exports and the need for inventory accumulation in the US and European countries to increase again from low levels, we forecast the GDP in 2024 to reach 5.9% to 6.1% based on a low base in the same period last year, but slightly lower than the government's target.

Figure 2: GDP growth in sectors quarterly (yoy%)



Source: GSO, MBS Research

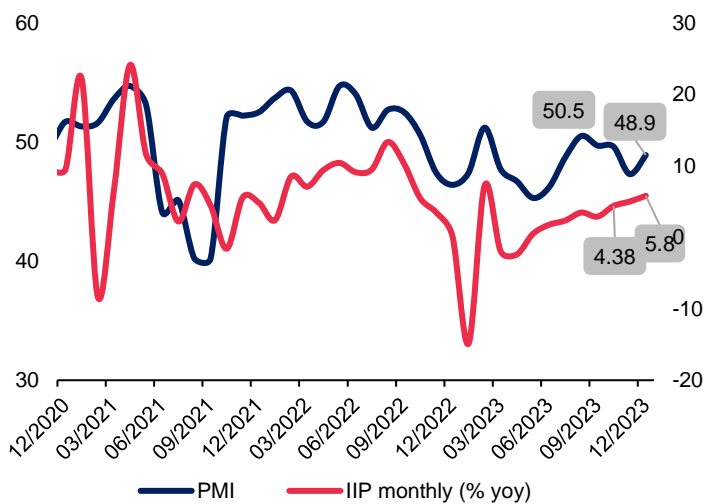
Industrial production growth witnesses the highest since the beginning of the year

Industrial production increased 0.1% mom and 5.8% yoy in Dec, maintaining continuous growth since May. Industries with strong production growth in the month include: manufacture of basic metals (+42% yoy), waste collection, treatment and disposal activities; materials recovery (+26% yoy), and manufacture of pharmaceuticals, medicinal chemical and botanical products

(+25.5% yoy). For 2023, industrial production grew by 1.4% yoy of which, mining and quarrying delivered a minus decrease of 3.9% yoy.

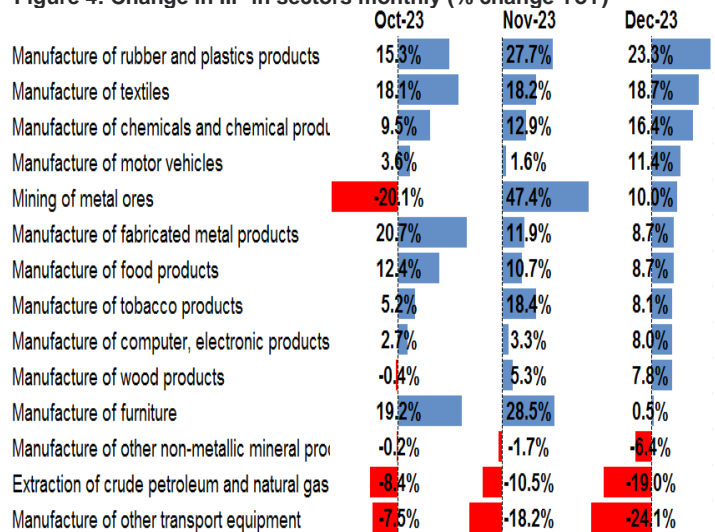
Vietnam's PMI in December rose from 47.3 in November to 48.9 in December, thereby remaining below the 50.0 no-change mark. PMI is still not very positive because weak demand continues to contribute to the decrease in the number of new orders for the second month in a row, leading decrease in output. Employment and consumer spending, meanwhile, barely changed. The health of the sector worsened through much of 2023, improving only in February and August. The average PMI reading across the year was the lowest since the COVID-19 pandemic outbreak in 2020.

Figure 3: Vietnam's PMI manufacturing and IIP (% change YoY)



Source: Bloomberg, MBS Research

Figure 4: Change in IIP in sectors monthly (% change YoY)



Source: GSO, MBS Research

Exports are strongly driven by industrial goods

In Dec, export turnover of goods declined 5.7% mom, up 13.1% yoy to USD 32.9bn. Exports soared in the last month of the year compared to the same period due to impressive growth of many industrial and agricultural products such as textile fibres (+128% yoy), cameras, camcorders and their components (+78% yoy) and rice (+118% yoy). For whole 2023, export turnover decreased 4.4% yoy to USD 355.5bn. The export items with the largest negative growth include chemicals (-19.4% yoy), aquatic products (-17.5% yoy), crude oil (-16.7% yoy). Nevertheless, exports still highlight some bright spots in growth due to the contribution of agricultural products include fruits and vegetable (+66% yoy), rice (+39.4% yoy), and cameras, camcorders and their components (+20.6% yoy).

In term of export markets, export turnover to U.S. decreased 11.6% yoy to USD 96.8bn, following by E.U with USD 44.1bn (-5.9% yoy); export to Japan reach USD 23.5bn (-3.2% yoy).

Import turnover of goods was about USD 30.6bn in Dec (+12.3% yoy) and USD 327.5bn in total 2023, (-8.9% yoy). China remained the largest import market of Vietnam with a turnover of USD 111.6bn. Four import products totaling more than USD 10bn in value in 2023 (accounting for 46.8% of total import turnover), which are electronic goods, computers and their parts (+7.7% yoy); machinery, instrument, accessory (-8.1% yoy), fabrics (-11.1% yoy) and iron, steel (-11.6% yoy).

Figure 5: Export market of Vietnam in monthly (USD bn)

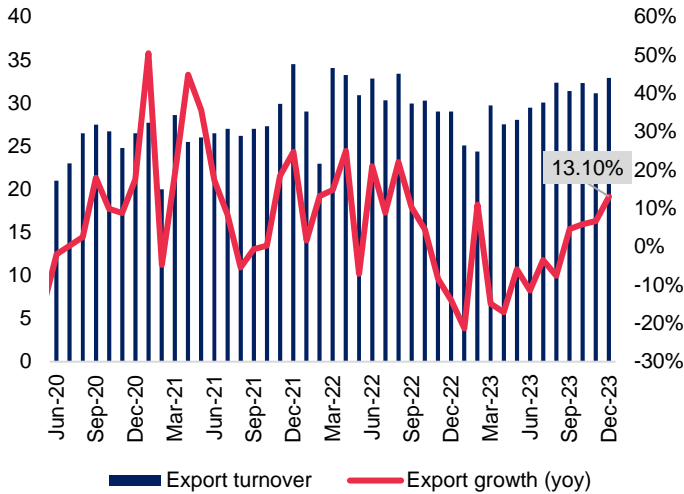
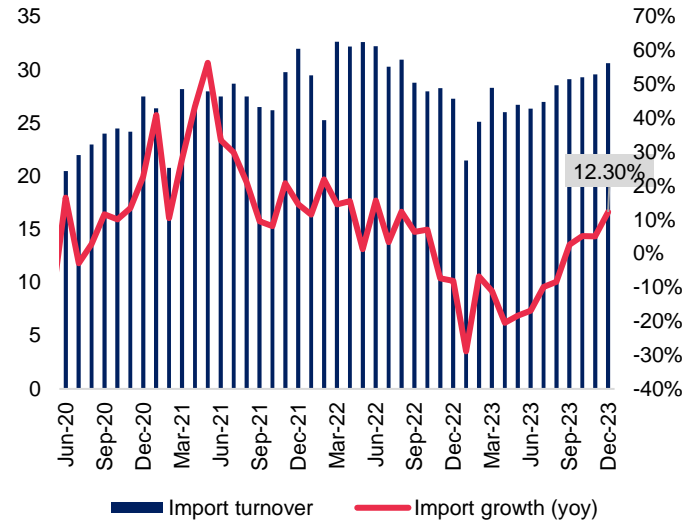


Figure 6: Import market of Vietnam in monthly (USD bn)



Source: GSO, MBS Research

Source: GSO, MBS Research

Figure 7: Growth of major export products in 11M2023 (%yoy)

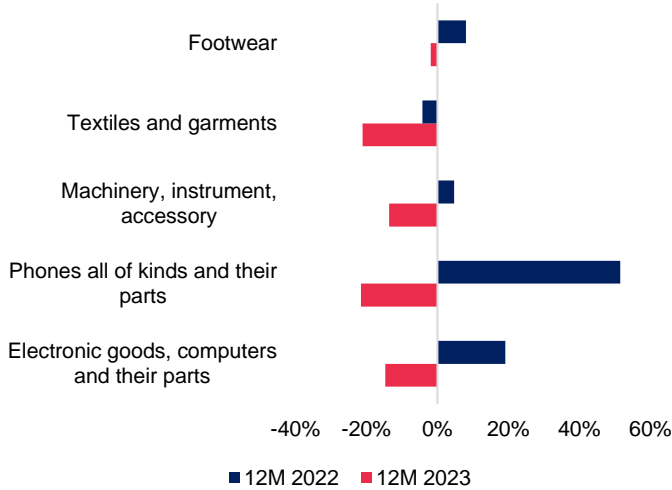
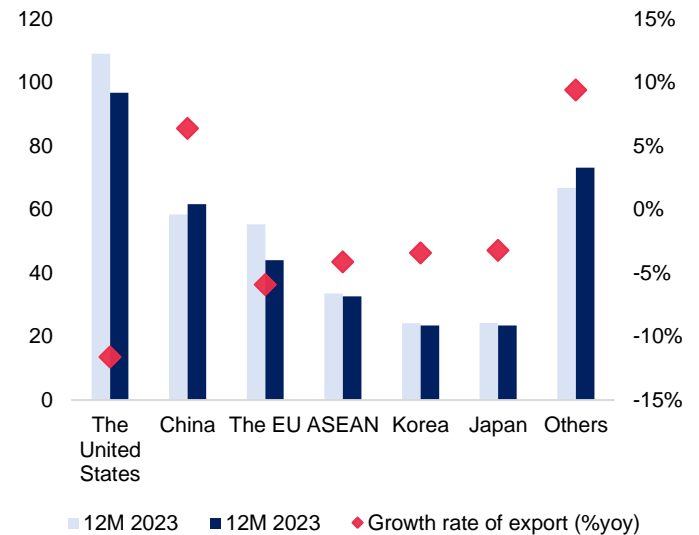


Figure 8: Export market of Vietnam in 11M2023 (USD bn)



Source: GSO, MBS Research

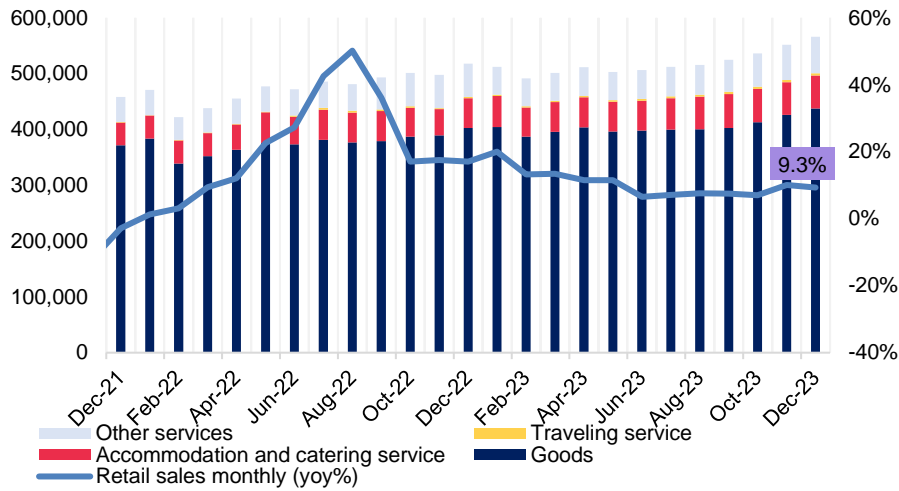
Source: GSO, MBS Research

Consumption is still on the rise, tourism has recovered beyond expectations

Retail sales of consumer goods and services growth soared to +9.3% yoy and +2.6% mom in Dec. The growth of retail sales accelerated again in the last two months of the year after recording a downward trend, in the condition that consumers are becoming more price-sensitive, retail activities in the end of the year are more dynamic compared to the low base of the previous year.

For 2023, the total retail sales of consumer goods and services was estimated to increase by 7.1% yoy (excluding the price factor). International visitors to Vietnam 11M23 were estimated at 11.6mn arrivals, 3.4 times higher than the same period last year but still down 70% compared to the same period in 2019, the year no Covid-19 epidemic.

Figure 9: Retail sales of consumer goods and services (Trillion VND)



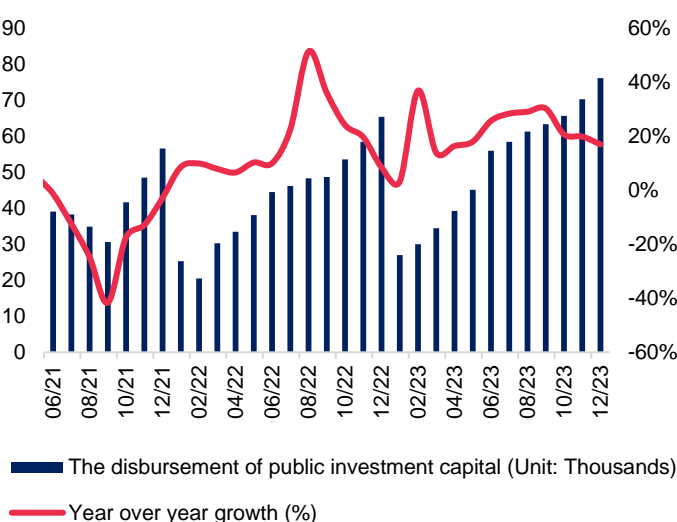
Source: GSO, MBS Research

FDI see a remarkable increase this month, the total disbursement for the entire year reaching a record high

In Dec, newly registered FDI inflow increased 3 times compared to the same period last year, meanwhile disbursed FDI grew 10% yoy. For 2023, realized FDI inched up modestly 3.5% yoy to USD 23.1bn, in which: Processing and manufacturing industry sector attracted USD 19bn of new FDI inflow (accounting ~ 82.3%), electricity generation and distribution, as, hot water, steam, and air conditioning production reached 1.3bn (accounting ~ 5.9%), and about USD 1.1bn for real estate sector (accounting ~ 4.9%). Notably, a prominent FDI project in Dec is Electronic components maker the Radiant Opto-Electronics Corporation from Taiwan (China) received an investment certificate on December 21 to pour \$120 million into building a factory at the VSIP Nghe An Industrial Park in the north-central province of Nghe An.

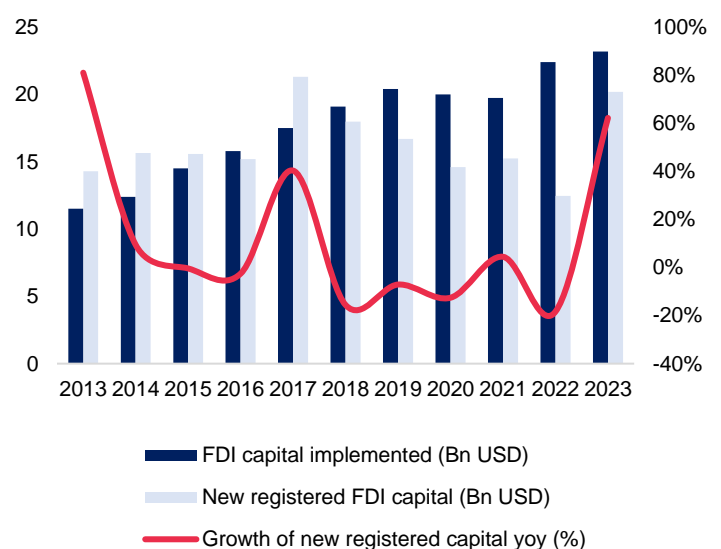
Disbursed state investment sped up 17% yoy in Nov to VND 76.2tn. For total 2023, state investment increased 21.2% yoy to VND 625.3tn, fulfilling 85.3% of Government's target.

Figure 10: Growth of realized investment capital from State budget



Source: GSO, MBS Research

Figure 11: Growth of foreign investment capital



Source: GSO, MBS Research

Despite inflationary pressures ease in 2023, it remains a challenge for the year 2024.

According to General Statistics Office (GSO), Vietnam's CPI in Dec inched up only 0.1% mom and 3.5% yoy (CPI in Dec 2022 increased 4.5% yoy). For the first over 2023, average CPI increased by 3.2% yoy; meanwhile, core inflation increased by 4.2% yoy, shows that domestic inflation is still under control below the set target of 4.5%.

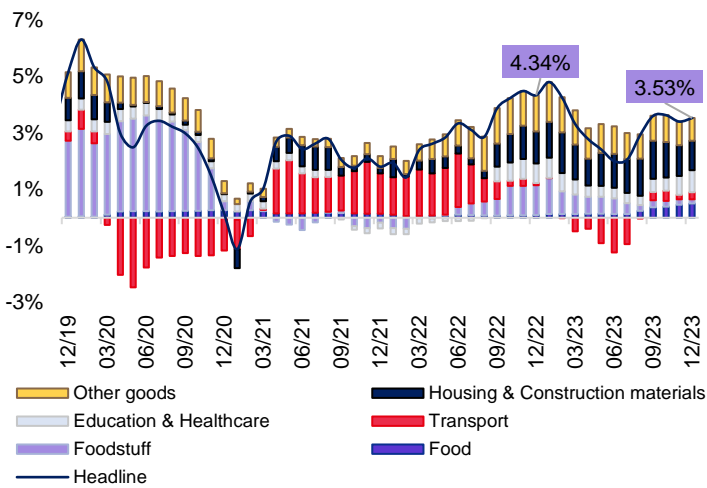
The acceleration is on the back of construction materials price and rent house, which put CPI index in Dec up (+5.6% yoy). Food and catering services increased by 2.9% yoy, of which: Food basket increased by 14.6% yoy due to the high index of out-of-home dining in the last month of the year. In addition, the increase in tuition fees in some localities pushed the education group index up by 8.6% yoy and the medicine and healthcare services group increased 5.5% due to adjusted healthcare service prices contributing to CPI increase compared to the same period.

Cement and sand prices increased along with raw material input prices and rising house rent prices, pushing the price index of housing and construction materials up an average of 6.5%, continuing to have a major impact on the overall CPI of the whole year. Food basket increased by 2.3% yoy due to rising in consumer demands during holidays, New Year, causing the average CPI to go up. On the contrary, the average domestic gasoline price for the whole year decreased by 11% due to fluctuations in world prices, gas prices also decreased by 6.9%, which is a factor that restrains the growth rate of average CPI.

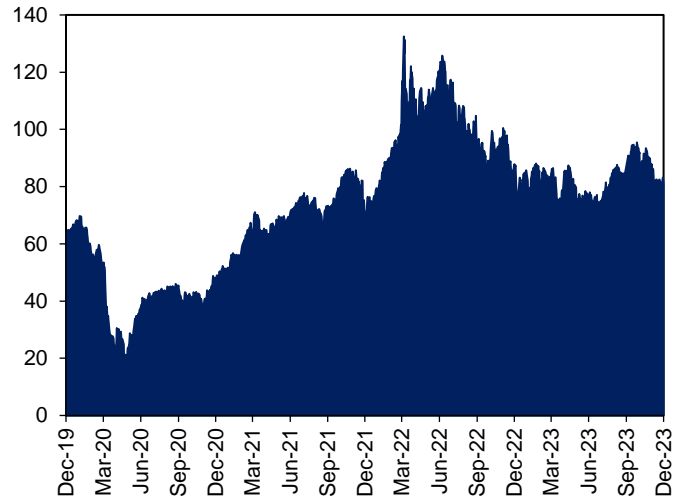
We expect the average CPI in 2024 to fluctuate at 3.5% - 3.6%, inflation will still remain within the government's target of 4% - 4.5% because domestic demand is still low. However, inflation next year will be at risk due to the following factors: First, domestic construction steel prices are expected to recover to 15mn VND/ton (+8% yoy) in 2024 due to increase in global steel prices and demand in the domestic market. Second, rising electricity demand along with EVN adjusting the average retail electricity price twice in 2023 will impact related goods, products and services and push up daily spending to go up. Third, the food price index tends to increase because rice prices will increase in the context of increased demand in Asian and African markets. In addition, oil price is also a notable factor next year in the context of international conflicts that may last longer. However, the outlook is still not too clear and is expected to remain quite stable around 83 - 85 USD/barrel due to supply reduction efforts from OPEC+.

Figure 12: Contribution of commodity groups to CPI growth (%)

Figure 13: Brent crude oil price (USD/Barrel)



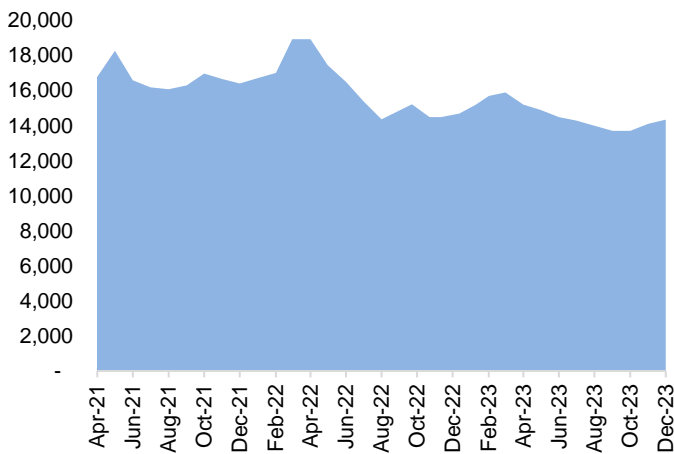
Source: GSO, MBS Research



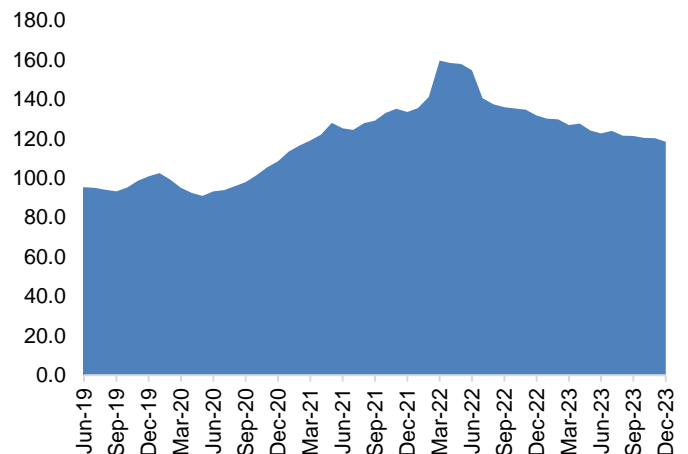
Source: Bloomberg, MBS Research

Figure 14: Steel price (Mn VND/ton)

Figure 15: FAO food price index



Source: MBS Research



Source: FAO, MBS Research

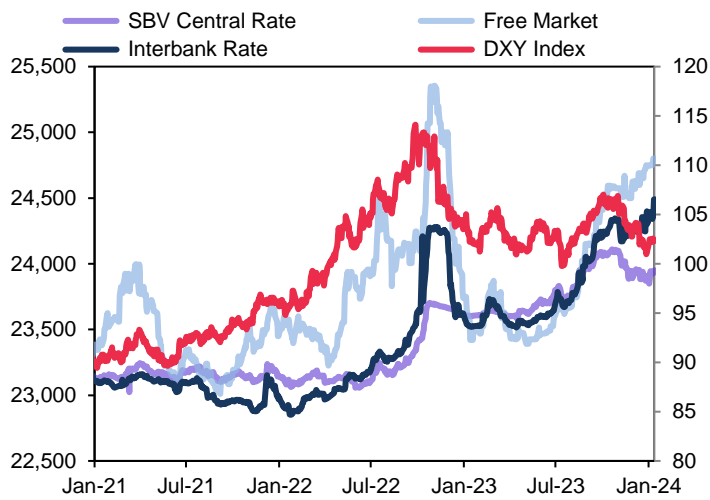
The USD/VND exchange rate is still trending upward, but we expect it to ease

Since May 2023, the free exchange rate has been rising without any indications of slowing down. The domestic free exchange rate is trading at 24,750 at the latest session, up 4.3% compared to the beginning of the year. Due to the influence of USD index, the interbank exchange rate is also gradually increasing. It is currently trading at 24,393 VND/USD, 3.5% more than it was at the start of the year.

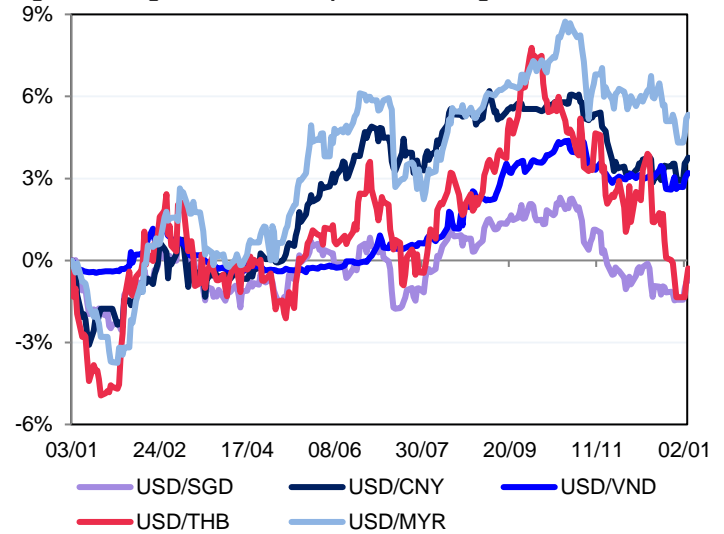
The dollar bounced to 102.5, the dollar to a two-week high as better-than-expected as U.S. labor market data dampened expectations for the Fed will cut rates several times this year. The greenback also rallied to Treasury yields, as the 10-year hit 4% for the first time in two weeks.

Heading to 2024, the context of improving US inflation means increasing the likelihood that the Fed will start cutting interest rates sooner than expected. With the easing of global monetary policy, there will be less pressure on the domestic exchange rate as the US dollar depreciates significantly. We believe that the exchange rate in 2024 will fluctuate in the range of 23,800 – 24,300 VND/USD and will continue to be supported by factors including trade surplus, however, it may not be as good as now when import and export will recover, FDI

disbursement will be positive, and remittances will be stable (the IMF forecasts more than USD 110bn in remittances in 2024), and international tourism rebounds sharply,...

Figure 16: VND/USD exchange rate


Source: SBV, Bloomberg, MBS Research

Figure 17: Regional currencies performance against USD


Source: Bloomberg, MBS Research

Vietnam's economic indicators

Economic indicators	2018	2019	2020	2021	2022	2023F	2024F
1. GDP, population & income							
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
2. Fiscal policy (%GDP)							
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
3. Financial indicators							
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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