Macro outlook 2H24

Solid growth force and less pressure

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Some key forecasts of KBSV about Vietnam's economy in 2024:

We raised the GDP growth forecast for the whole year 2024 to 6.5% from the 6% given in the previous report. Factors that may support economic growth in the second half of 2024 include: (i) Production and export activities continue to be positive; (ii) FDI flows and public investment disbursement grow steadily; and (iii) domestic demand and the real estate market recover despite the slow speed.

The average CPI forecast for 2024 is maintained at 3.8% YoY, which is below the Government's limit of 4-4.5%. The index is expected to gradually cool down in 2H24 as the comparative figure in 2H23 is high, and the MoM month increase is also forecast to be well controlled in the next three to four months amid hopes for more stable oil prices and benefits from VAT reduction. However, the pressure will increase towards the end of the year when the economy recovers, leading to higher domestic demand and increased prices of some goods.

Deposit interest rates are likely to further gain 50bps from now until the end of the year. Lending interest rates have bottomed out and are projected to move sideways or slightly increase at the end of the year.

The USD/VND exchange rate is forecast to gradually stabilize in the second half of the year and gain 3.5% YTD to VND25,120/USD.

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Executive Summary

The macroeconomic picture has improved in the first six months of 2024. GDP growth has reached five-year highs (excluding the year 2022 when the economy reopened after the Covid pandemic). The industrial and construction sectors led the economy thanks to the recovery of production and export activities, while the agriculture, forestry, fisheries and services sectors maintained stable growth.

In the second half of the year, we expect that signs of macroeconomic prosperity will be maintained as production and export activities continue the recovery with improved demand in major markets, stable FDI inflows, and the Government's promoting public investment and domestic demand stimulus measures. Although the risks of inflation and exchange rates have returned, KBSV believes that it will decrease towards the end of the year and not exceed the Government's target level.

Table 1. Vietnam – 2024F macro indicators

			KBSV forecasts		
	Unit	2023	January 2024	April 2024	July 2024
GDP growth	% YoY	6.42	6	6	6.5
Average CPI	% YoY	4.08	3.5	3.8	3.8
Credit growth	% YTD	6	13.5 - 14.5	14 - 15	14 - 15
Average 12M deposit interest rate	%/year	4.8	4.85 - 5.35	4.75 - 5.35	5.0 - 5.5
USD/VND exchange rate	VND	25,455	24,600	25,000	25,120

Source: KB Securities Vietnam

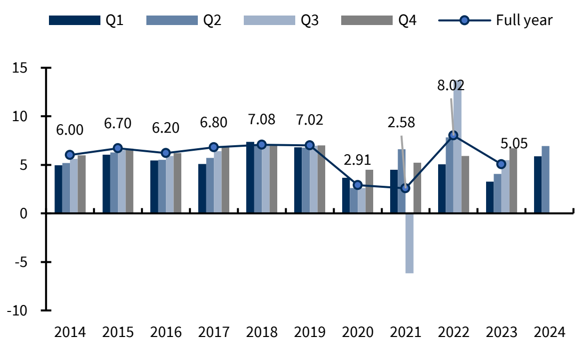
I. GDP growth

1. 1H24 GDP growth

GDP growth showed an impressive rebound

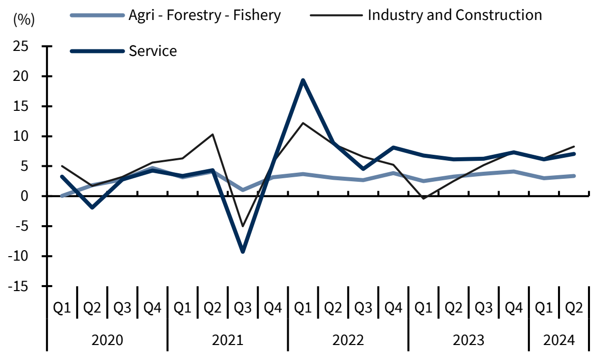
According to data from the General Statistics Office (GSO), GDP in the first six months of 2024 is estimated to increase by 6.42% YoY, the highest in the period 2020-2024, only lower than the same period in 2022 when the economy reopened after Covid-19 pandemic. This proves that the Vietnam's economy is gradually recovering. In the context of a more stable world economy, orders have returned to Vietnam, promoting production and export activities, while domestic consumer demand remains weak, and the real estate market recovers slowly. In 2Q alone, GDP rose 6.93%, much higher than the figures in 1Q24 (5.87%) and 2Q23 (4.05%).

Fig 1. Vietnam – GDP growth by quarter (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 2. Vietnam – GDP growth by sector (% YoY)



Source: General Statistics Office, KB Securities Vietnam

From the demand side, consumption has positively rebounded, and total social investment keeps increasing.

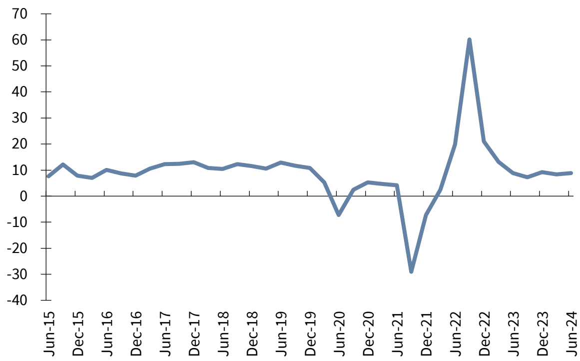
Consumption recorded considerable growth

Final consumption expenditure in 1H24 improved to 5.78% YoY, showing signs of recovery in domestic demand. Trade and service activities flourished with total retail sales of goods and services gaining 8.6% YoY to VND3,099 trillion, driven by retail goods (+7.4% YoY) and tourism (+37.1% YoY).

Social investment continues to increase

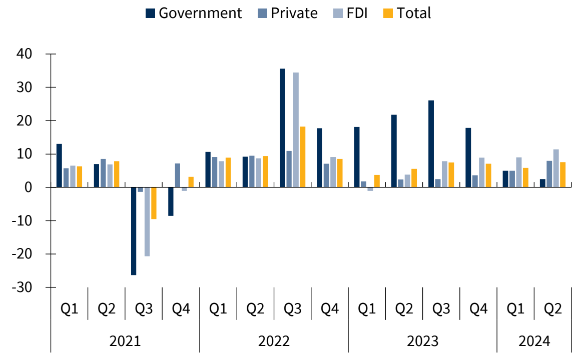
Social investment capital in the first half of 2024 went up 6.8% YoY to VND1,451 trillion, of which the private sector contributed VND800 trillion (+6.7% YoY), FDI VND260 trillion (+10.3% YoY), and the state sector added VND224 trillion (+3.5% YoY).

Fig 3. Vietnam – Retail sales of goods & services growth (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 4. Vietnam – Realized social investment capital growth (% YoY)



Source: General Statistics Office, KB Securities Vietnam

From the supply side, the industrial and construction sectors recovered strongly, the service sector and the agriculture, forestry and fishery sector remained stable (Figure 2).

The industrial and construction sector recovered strongly

The industrial and construction sector in 1H24 surged 7.51% YoY from the low comparative base in the same period last year. The added value of the entire industrial sector rose 7.54% YoY, of which the main industry, processing and manufacturing increased 8.67% YoY, which is the main driving force of the entire sector. The construction industry also improved by 7.34%, reaching four-year highs. 1H24 IIP increased by 7.7% YoY, and there are 56 localities recording IIP growth and seven posting a decrease in IIP.

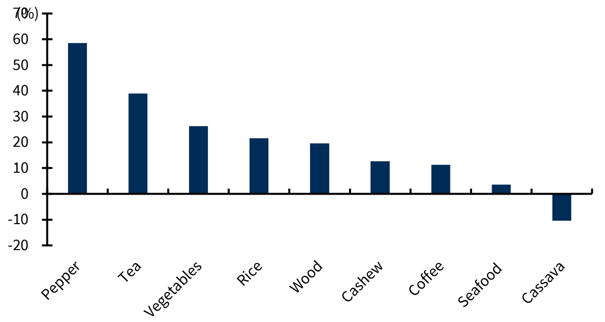
The service sector remained stable

The service sector climbed 6.64% YoY when the Government promoted policies to stimulate domestic consumption and tourism. Accordingly, wholesale and retail increased by 7.34%; the transportation and warehousing industry up 11.02%; finance, banking and insurance activities up 5.18%; and accommodation and catering services spiked 9.94% thanks to higher traffic of international and domestic tourists.

The agriculture, forestry and fisheries sector posted strong growth

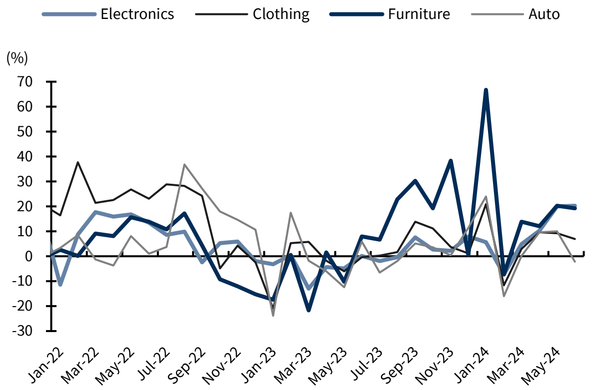
The agriculture, forestry and fisheries sector gained 3.38% YoY, both ensuring domestic food security and making a significant contribution to export activities. Winter-spring rice productivity improved compared to the same period last year, poultry farming achieved stable growth, the output of some perennial crops was large, and fisheries farming grew positively. In addition, exports of this sector in the first half of the year also posted promising growth, showing a positive change in demand from major export markets (Figure 5).

Fig 5. Vietnam – Export growth of agriculture, forestry, and fisheries products in 2Q24 (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 6. Vietnam – Growth rates of some key industries (% YoY)



Source: General Statistics Office, KB Securities Vietnam

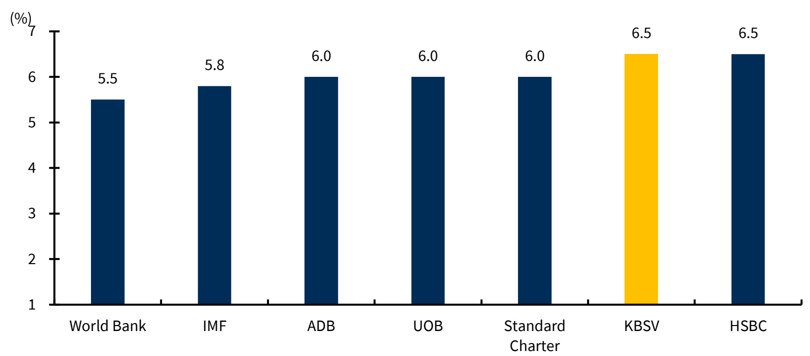
2. 2024F GDP growth

GDP growth in 2024 is forecast to reach 6.5%

Thanks to more positive results than expected in the second quarter, we raised our GDP growth forecast for the whole year 2024 to 6.5% from 6% in the previous report. In particular, factors supporting growth in the second half of 2024 include: 1) Production and export activities continue to be positive; 2) FDI capital flows and public investment disbursement grow steadily; 3) Domestic demand and the real estate market, although changing slowly, will tend to recover gradually.

On the contrary, the biggest risks to our GDP growth forecast include: inflation and exchange rates not cooling down as forecast, affecting the stability of the economy, related risks. to geopolitical issues that put pressure on energy prices, transportation costs... causing central banks to lower interest rates more slowly than expected.

Fig 7. Vietnam – 2024F GDP growth (%)



Source: HSBC, World Bank, ADB, UOB, Standard Chartered, KB Securities Vietnam

Exports are expected to maintain growth

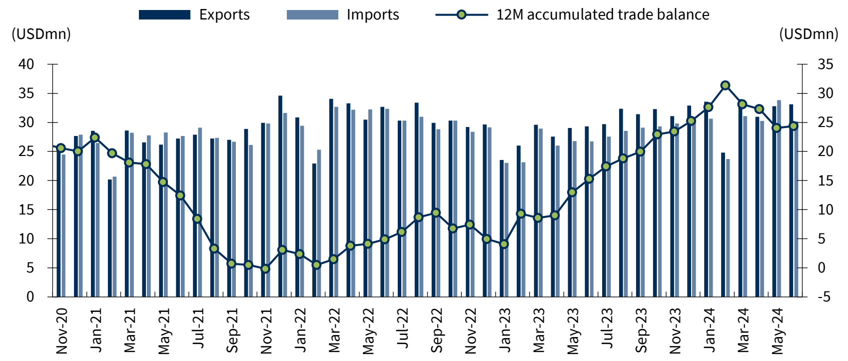
Exportation plays a vital role to Vietnam's economic growth in 1H24 as the demand in major economies such as the US, the EU, and China started to rebound. The total export turnover in 1H24 is estimated at USD366 billion (+15.4% YoY), of which exports reached USD190 billion (+14.5% YoY). The trade surplus reached USD12 billion vs USD13 billion in 1H23. Key exports all surged compared to the same period last year: Electronics (+28.6%), smartphones and components (+11.3%), machinery and equipment (+16.2%), textile garment (+3.1%), and wood (10%). Regarding export markets, the US contributed the largest value with 29% of export turnover, followed by China (23%) and the EU (15%).

For 2H24, we believe that exports may record a lower YoY increase than in the first six months of the year due to the high comparative base level at the end of last year, but they will maintain a positive uptrend, based on the following arguments:

i) Global economic and trade growth continues a positive trend, consumption in trading partner countries recovers strongly. International organizations are more optimistic about global economic growth in 2024 than previous forecasts (Figure 10). Global trade activities are also expected to gain 2.5-3% in 2024. In addition, inventory growth in major countries is increasing more rapidly, implying that businesses are actively preparing for an increase in demand in the future, especially in the year-end peak season.
ii) Orders are returning to Vietnam, reflected in: (a) Imports in 1H24 increased by 17% YoY, of which capital goods accounted for 94%. This means that businesses are importing more raw materials to serve production. (b) The PMI in June surged to 54.7 points, and surveys also showed a spike in output and the number of new orders.
iii) Vietnam's exports are expected to expand market share in the US market in the context of the tense US-China trade war and US presidential election. In addition, Vietnam should be recognized by the US as a market economy, so exports from our country will be able to compete equally with other countries and no longer subject to high anti-dumping duties.
iv) Some key export items will also benefit from the positive outlook of the global semiconductor and electronic components industry. To be more specific, electronics, smartphones, components and machinery accounted for 44% of Vietnam's total export turnover in 1H24. According to WSTS Organization, the semiconductor market should grow from the increasing demand for chips used for artificial intelligence. Its scale is expected to increase 13.1% YoY in 2024, reaching a record high of USD588 billion.

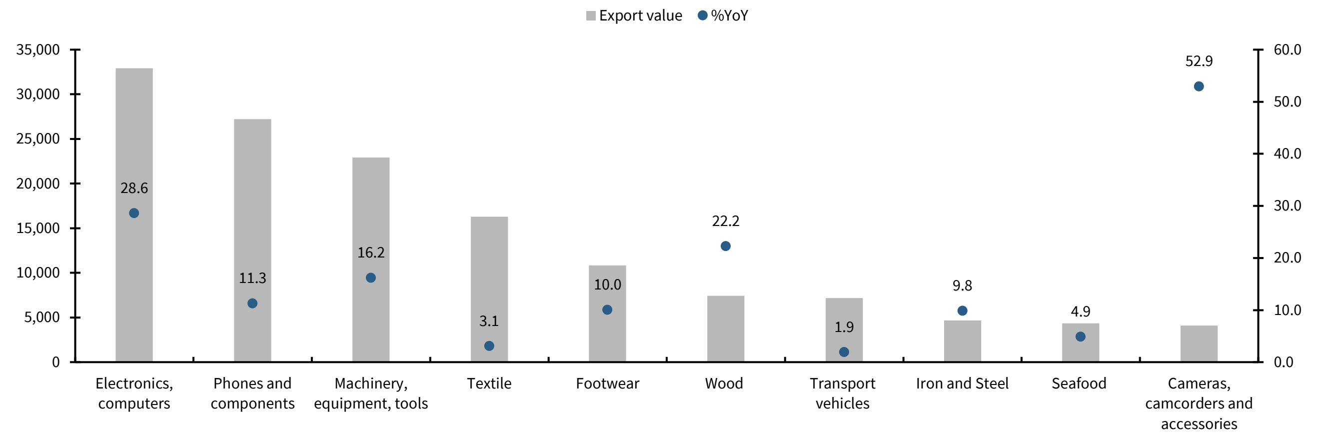
On the other hand, there are two main risks that could negatively impact export activities: Geopolitical tensions leading to surging transportation costs and higher input prices; and slower-than-expected rate cuts from central banks, undermining consumption demand in big countries.

Fig 8. Vietnam – Import-export turnovers and 12M trade balance (USDbn)



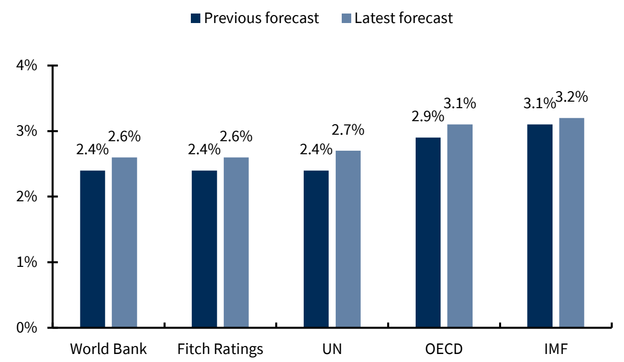
Source: General Statistics Office, KB Securities Vietnam

Table 2. Vietnam – Export turnover and key exports in 1H24 (USDmn, %YoY)



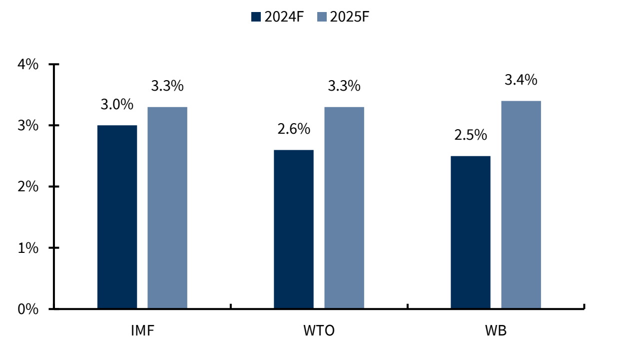
Source: General Statistics Office, KB Securities Vietnam

Fig 9. Global – Forecast economic growth (% YoY)



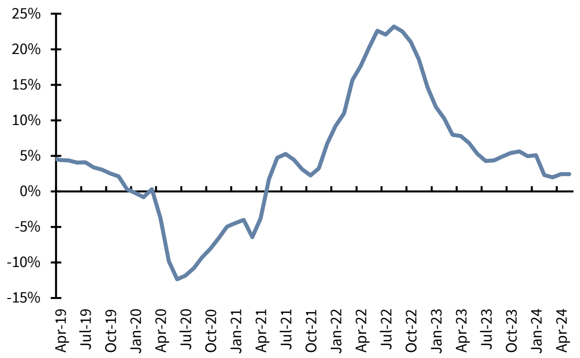
Source: UN, Fitch Ratings, WB, OECD, IMF, KB Securities Vietnam

Fig 10. Global – Forecast trade growth (% YoY)



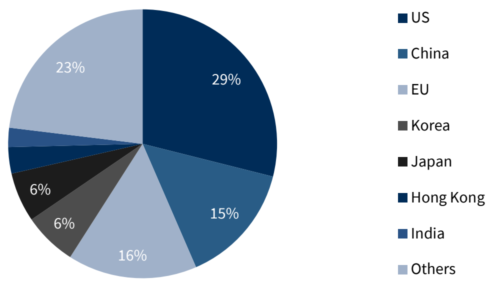
Source: IMF, WTO, WB, KB Securities Vietnam

Fig 11. US – Retail inventory (USDmn)



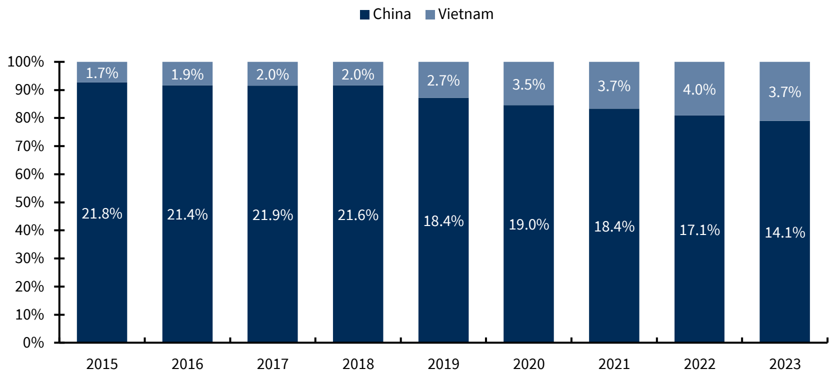
Source: Bloomberg, KB Securities Vietnam

Fig 12. Vietnam – Export breakdown by country in 1H24 (%)



Source: WTO, IMF, KB Securities Vietnam

Fig 13. US – Import weight from Vietnam & China/total imports (%)

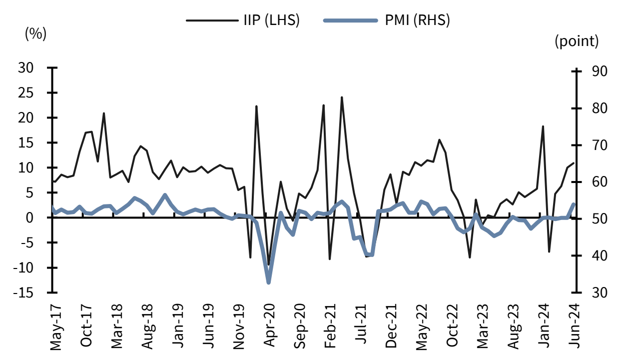


Source: ITC, KB Securities Vietnam

Industrial production is expected to maintain its upward momentum, following the recovery of exports and domestic demand

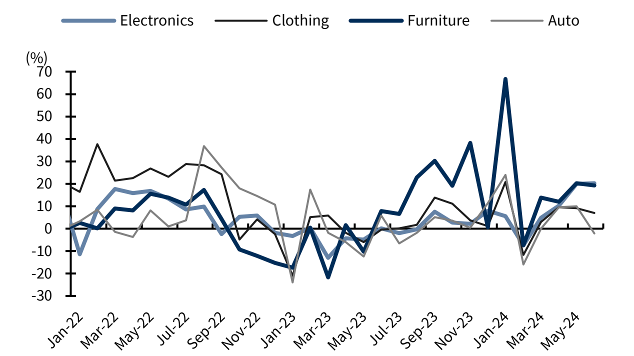
The IIP in the first six months of 2024 increased by 7.7% YoY. Of that, the key industry – processing and manufacturing climbed 8.5%, higher than the average increase of the whole sector. After two months of maintaining at 50.3, the PMI increased to 54.7 points in June (second highest in ASEAN and highest since June 2022) with new orders increasing at the fastest rate ever recorded. It is worth noting that the number of new export orders increased at the fastest rate since February 2022, but the growth rate was much slower than the total number of new orders. This shows that domestic demand is bouncing back from a low base along with the positive outlook of exports, which will support the increase in industrial production activities in 2H24.

Fig 14. Vietnam – IIP, PMI (% YoY, points)



Source: General Statistics Office, KB Securities Vietnam

Fig 15. Vietnam – Growth of some key industries (% YoY)



Source: General Statistics Office, KB Securities Vietnam

FDI flows continue their stable growth

Vietnam's total registered FDI in 1H24 was USD15.19 billion, up 13.1% YoY. Disbursed FDI rose by 8.2% YoY to USD10.84 billion, the highest level in the last five years. We expect FDI flows into Vietnam to be stable in 2H24 thanks to the following factors:

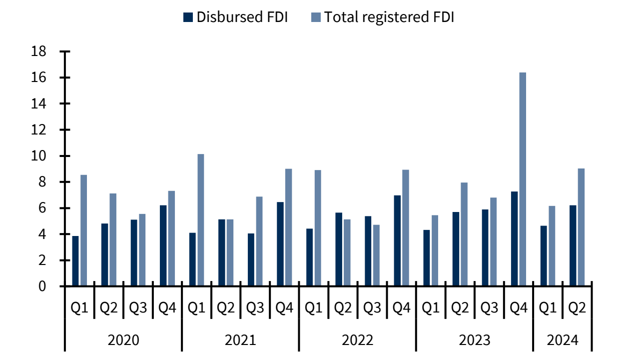
i) Vietnam continues to benefit from the trend of production bases relocating from China to diversify supply chains. From 2018 to 2023, Vietnam's trade surplus with the US increased by 2.7 times, ranking fourth among countries with significant trade surpluses with the US, only after Mexico, China, and Canada.

ii) Vietnam has competitive advantages against the region and other countries, such as a stable economic and political environment, a favorable geographical position for global trade, numerous signed FTAs, an abundant workforce, and competitive production costs. Furthermore, the Vietnamese government has continuously improved institutions and incentives to attract and better manage domestic and foreign investment resources, created a favorable business environment, and focused on infrastructure construction and upgrades. According to EuroCham, the business confidence index (BCI) of European companies in Vietnam rose to 52.8 in 1Q24 from 46.3 points in 4Q23.

iii) Trade activities and FDI attraction gained advantages from the government enhancing cooperation and upgrading comprehensive strategic relationships with the US, Japan, Australia, and diplomatic visits promoting collaboration with major international partners such as China and South Korea.

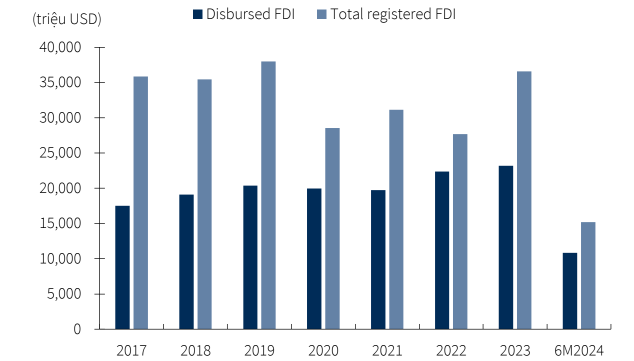
iv) The imposition of the global minimum tax will not reduce Vietnam’s investment attractiveness as competing countries for FDI like Malaysia, Indonesia, and Thailand have also adopted similar tax regulations. The government is also considering issuing alternative incentives to support FDI enterprises based on revenue from the global minimum tax to protect competitive advantages.

Fig 16. Vietnam – Disbursed & registered FDI by quarter (USDmn)



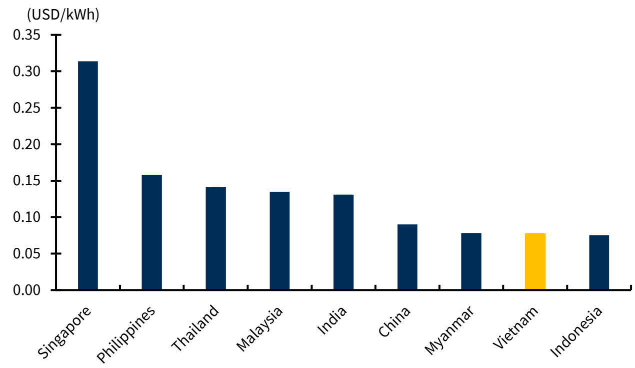
Source: Ministry of Planning & Investment, KB Securities Vietnam

Fig 17. Vietnam – Disbursed & registered FDI in 2017-2024 (USDmn)



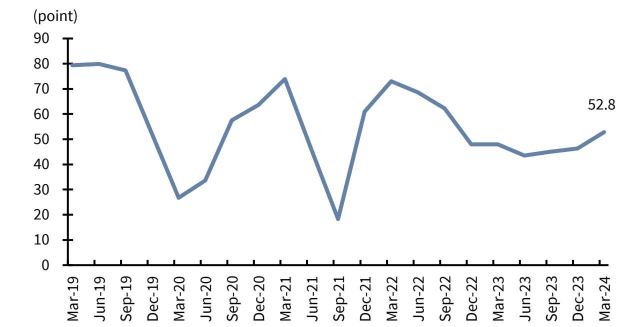
Source: Ministry of Planning & Investment, KB Securities Vietnam

Fig 18. Global – Average electricity prices for businesses (USD/kWh)



Source: Global Petro Prices, KB Securities Vietnam

Fig 29. Vietnam – BCI (point)



Source: EuroCham, KB Securities Vietnam

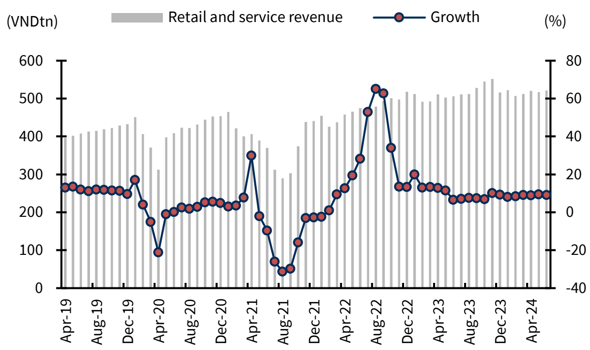
Retail and services are expected to improve thanks to stimulus measures and tourist attraction

Total retail sales of goods and services in the first six months of the year increased by 8.6% YoY, lower than the pre-Covid average of 14%. In addition, if excluding inflation, the increase was only 5.7% YoY, lower than the same period in 2023 with 8.8%, showing that this sector is changing quite slowly. We expect domestic consumption demand to be more positive by the end of 2024 and grow impressively in 2025 when: (i) Loose monetary policy and stimulus measures (including extending the VAT reduction period and increasing basic salary) will be more effective. (ii) Positive economic prospects with the main driving force from export activities will create more jobs and increase income for people, positively affecting consumer demand. (iii) Inflation, although showing signs of increasing, is expected to be well controlled below the Government's target of 4.5%.

We expect the catering and tourism services industry to continue to be vibrant. In 1H24, Vietnam's tourism welcomed 8.8 million international arrivals, rising 58.4% YoY from the low base in 1H23 and up 4.1% YoY, fully recovering to the pre-Covid levels. In 2024, the tourism industry aims to attract 17-18 million international arrivals with expected revenue of VND840 trillion (~8% of GDP).

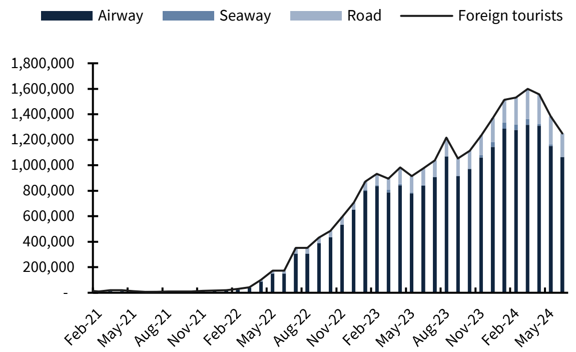
The recovery of tourism and travel is also a great premise for revenue from hospitality and catering services to recover.

Fig 20. Vietnam – Retail sales of goods & services growth (VNDtn, %YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 21. Vietnam – International tourists (arrival)



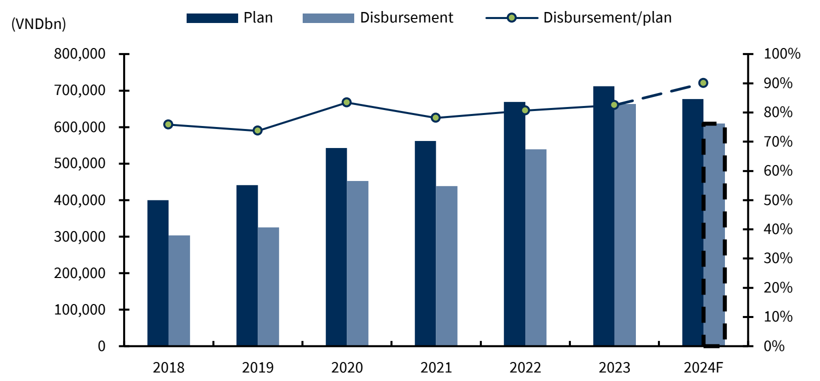
Source: General Statistics Office, KB Securities Vietnam

Public investment continues to be boosted

Public investment is the key to stimulating the economy and has long-term spillover effects across other sectors. According to the GSO, the public investment capital disbursed from the state budget in 1H24 is estimated at VND244.4 trillion, equal to 33.8% of the government's target, a slight growth of 3.5% over the high base of the same period in 2023. In particular, key projects have achieved relatively positive progress *(Please refer to KBSV's Vietnam Market Outlook 2H24 report).*

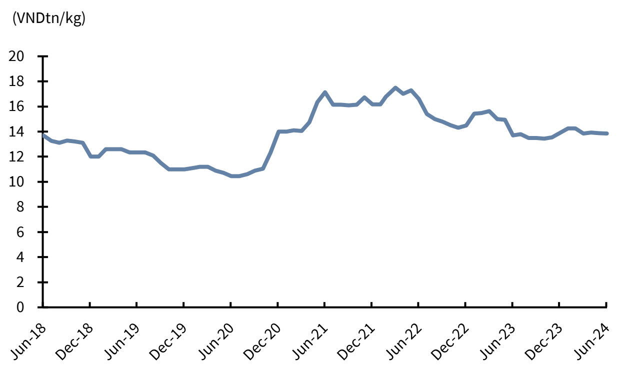
For the whole year of 2024, the government aims to allocate VNDVND677 trillion or 32% of the state budget, focusing on key projects such as the North-South Expressway, Long Thanh International Airport, Hanoi's Ring Road 4, and Ho Chi Minh City's Ring Road 3. We estimate the total disbursed public investment capital in 2024 to be around VND730 trillion (partly from 2023), down 5% YoY from the high base of the previous year but still relatively high compared to the five-year average. We expect the disbursement rate this year to reach a record level of around 90-95% of the plan thanks to: (i) Legal bottlenecks and investment issues gradually being resolved; (ii) 2024 being the year to accelerate the construction and completion of many key projects, while most new projects have completed preparation, legal procedures, and are ready for construction; and (iii) Input material prices projected to remain stable at low prices.

Fig 22. Vietnam – 2018A-2024F disbursed investment capital (VNDbn)



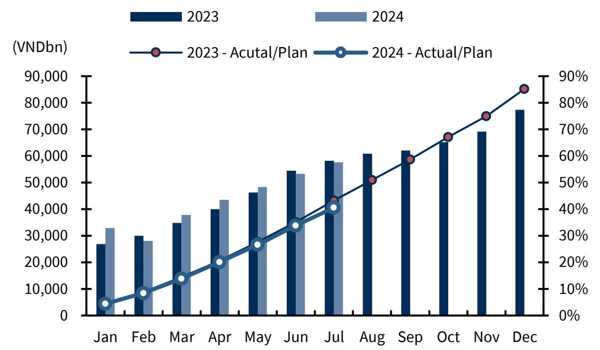
Source: Ministry of Finance, KB Securities Vietnam

Fig 23. Vietnam – Construction steel prices (VND/kg)



Source: Fiinpro, KB Securities Vietnam

Fig 24. Vietnam – Disbursed capital from State budget (VNDbn)



Source: General Statistics Office, KB Securities Vietnam

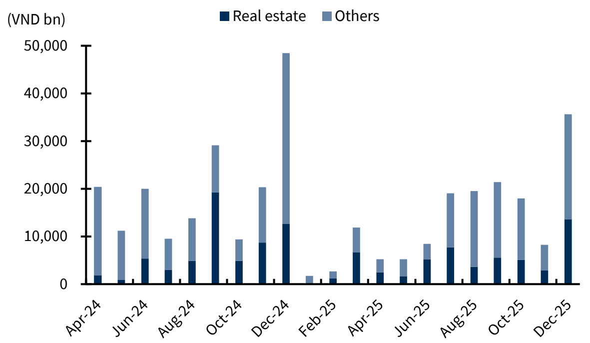
The real estate market starts to rebound

Real estate is a crucial sector, not only accounting for a large proportion of GDP but also impacting various other industries. The property market has faced countless difficulties recently due to high interest rates, legal obstacles, and events related to real estate businesses that undermined investor confidence. However, since late 1Q24, the market has been more vibrant with many projects started and offered for sales.

The real estate market should continue its recovery trend as: (i) Low interest rates would support developers in accessing capital and enable them to accelerate project implementation, thus helping to increase supply in the market. Additionally, low interest rates coupled with preferential sales policies from developers also help boost housing demand. (ii) Amendments to Land Law, Housing Law, and Real Estate Business Law have been passed, gradually unblocking legal obstacles. (iii) Progress in implementing affordable housing projects is expected to improve, meeting the owner-occupied needs and balancing supply and demand. (iv) The acceleration of public investment projects, specifically large ones, axes connecting Hanoi and HCMC with neighboring localities, pushing up property prices and stimulating investment.

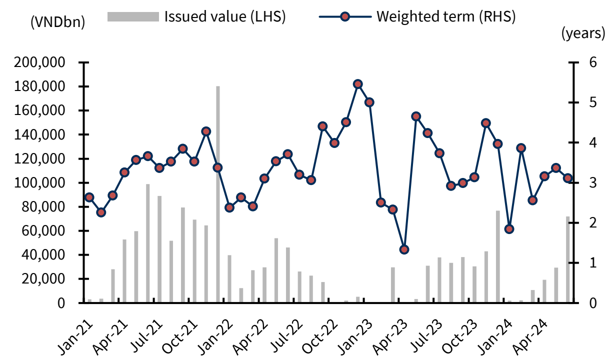
However, the pace of recovery will be relatively slow due to investor confidence having not fully recovered since the 2022 crash, property prices still hovering at high levels, risks related to corporate bond maturity and cautious lending practices across banks are existing amid the risk of rising non-performing loans while the use of short-term capital for medium and long-term loans is being restricted.

Fig 25. Vietnam – Value of matured corporate bonds (VNDbn)



Source: Hanoi Stock Exchange, KB Securities Vietnam

Fig 26. Vietnam – Newly issued corporate bonds (VNDbn)



Source: Hanoi Stock Exchange, KB Securities Vietnam

III. Inflation

1. 1H24 inflation

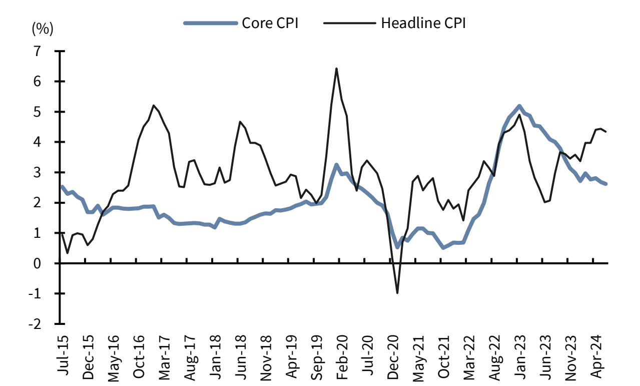
The average CPI in the first six months of 2024 increased by 4.08% YoY. In 2Q alone, it sharply gained 4.39% YoY from the low base level of the same period last year, while the MoM increase was not too big, fluctuating between 0.05-0.17% MoM.
The average core inflation in 1H24 increased by 2.75% YoY, lower than the average CPI mainly due to the prices of food, gasoline, medical services and tuition fees which are factors affecting the increase in CPI but are excluded from the list of goods calculated in the core CPI.

Food prices, housing rents, and education and health care prices are the factors that have the strongest influence on the CPI

The main factors affecting the average CPI in 1H24 include:

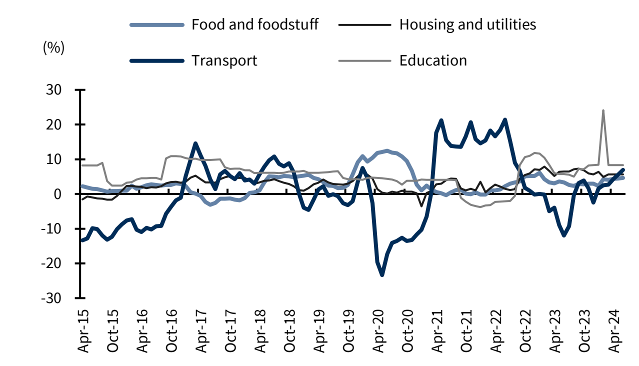
i) The price index of food and catering services increased by 4% YoY (making the headline CPI increase by 1.34ppts), in which domestic rice prices climbed along with export prices, and pork prices surged due to African swine fever (ASF).
ii) Housing and construction materials prices increased by 5.5% YoY (making headline CPI gain 1.04ppts) mainly due to rising housing rents and EVN's raising electricity from 2H23.
iii) Educational fees gained 8.58% YoY, and medicines & medical services rose 7.07% in line with the roadmap.

Fig 27. Vietnam – Headline & core CPI (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 28. Vietnam – Contribution of major components to CPI (%)



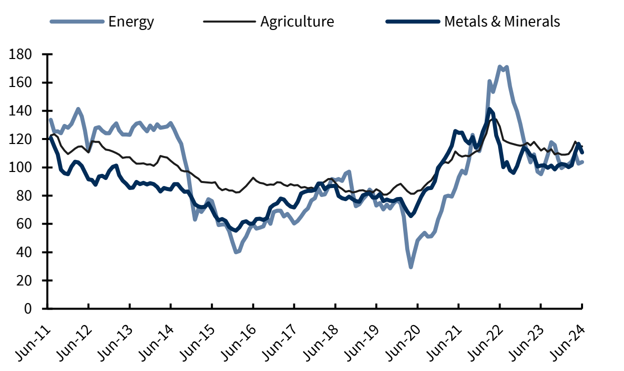
Source: General Statistics Office, KB Securities Vietnam

2. 2024F inflation

KBSV maintains forecast for 2024 CPI at 3.8% YoY

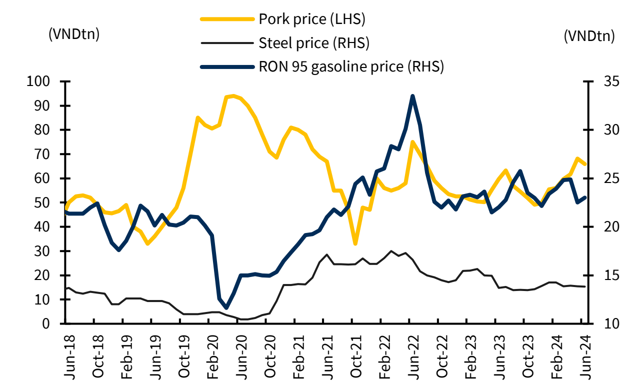
We maintain our forecast for Vietnam's average CPI in 2024 at 3.8% YoY, which is below the Government's target of 4-4.5%. The index is expected to gradually cool down in 2H24 as the comparative figure in 2H23 is high, and the MoM month increase is also forecast to be well controlled in the next three to four months amid hopes for more stable oil prices and benefits from VAT reduction. However, the pressure will increase towards the end of the year when the economy recovers, leading to higher domestic demand and increased prices of some goods: (i) Pork prices are forecast to continue to increase due to the impact of diseases; (ii) prices of state-managed goods such as education, healthcare, electricity and water increase according to the roadmap; (iii) exchange rate fluctuations and increased import demand for production put pressure on input material prices; and (iv) construction material prices are forecast to increase slightly on higher demand.

Fig 29. Global – Commodity price index (point)



Source: World Bank, KB Securities Vietnam

Fig 30. Vietnam – Commodity prices (VND thousand)

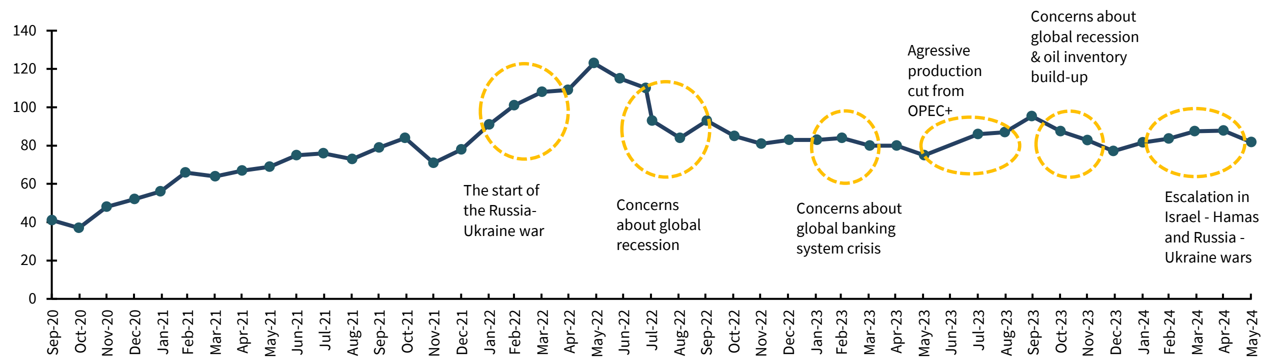


Source: KB Securities Vietnam

Brent crude oil prices are expected to be more stable in 2H24

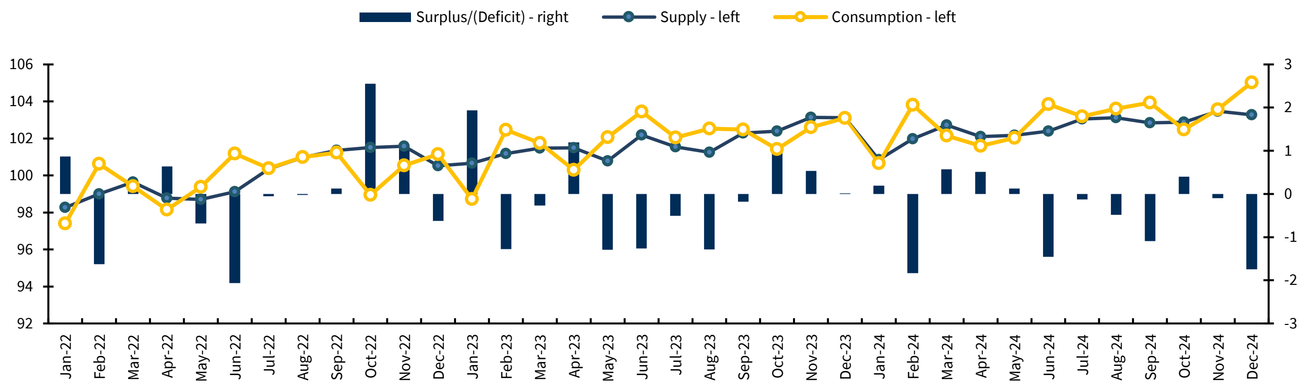
Oil prices not only directly affect the CPI of the transportation group but also have a strong spillover effect on the prices of other goods. In 1H24, Brent crude oil prices fluctuated strongly when they reached USD90/barrel and remained high in April amid escalating wars between Israel - Hamas and Russia - Ukraine, and then cooled down and moved in the range of USD80-85/barrel. According to our forecast, Brent crude oil prices are expected to be more stable in 2H24, averaging USD83/barrel for 2024 (more stable compared to the same period). Global crude oil demand in 2024 is still affected by the gloomy economic outlook of China and the EU. However, factors such as (i) low demand for investment in expanding production in the US due to high capital costs, (ii) OPEC+ maintaining production cuts, and (ii) hostilities in the Red Sea and Russia-Ukraine will tighten global supply, making it difficult for crude oil prices to see strong decreases.

Fig 31. Global – Brend crude oil price in 2020–2024 (USD/barrel)



Source: Bloomberg, KB Securities Vietnam

Fig 32. Global – 2024F crude oil demand & supply (million barrels/day)



Source: EIA, KB Securities Vietnam

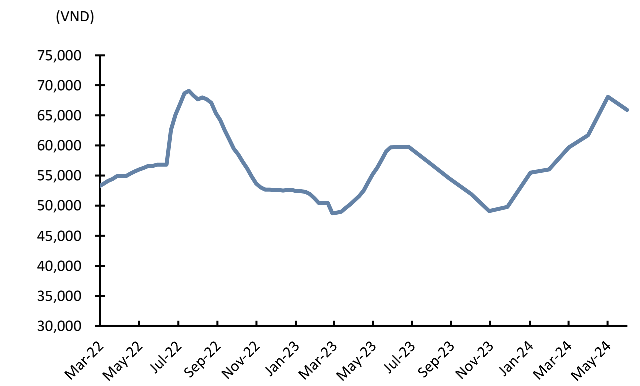
Pork prices are forecast to remain high at around VND65,000–70,000/kg due to scarce supply

Domestic live-weight hog prices skyrocketed in 2Q, fluctuating between VND60,000 and 70,000/kg (+30–40% compared to the end of 2023). The unusual spike in pork prices in the low season indicated that supply may be facing problems, which are mainly triggered by ASF and reduced imports. As of July 12, the country recorded 632 ASF outbreaks, forcing the culling of over 40,500 pigs. Compared to the same period in 2023, the number of outbreaks increased 2.4 times and the number of culled pigs increased 3.25 times. In addition, the importation of fresh chilled pork in the first four months of 2024 reached 19,370 tons, down 14.6% YoY. Accordingly, we forecast that hog prices will continue to stay high at around VND65,000–70,000/kg in 2H24 due to concerns about diseases causing both farmers and businesses to remain quite cautious in restocking and increasing the number of pigs.

Export and domestic rice prices have cooled down

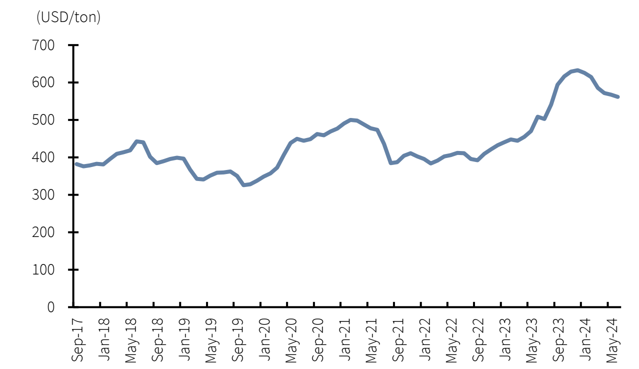
At the end of June 2024, Vietnam's 5% broken rice export price fell to USD560-565/ton (down 11% YTD) amid excess supply, weak demand due to rising freight rates, and the market waiting for India to ease restrictions. Domestic rice prices also decreased to their lowest level since August 2023. We believe that export rice prices may not witness a deep contraction as in 2023 but will move in the USD550-580 range/ton as: (i) The US Department of Agriculture (USDA) forecasts that the world will shift from deficit to surplus in rice in the 2024-2025 crop year. (ii) India is expected to ease restrictions on rice exports. (iii) China's rice consumption demand is expected to continue to decline as the use of rice as animal feed is no longer popular amid abundant corn supplies.

Fig 33. Vietnam – Average pork prices by month (VND)



Source: Vietnam Animal Husbandry Association, KB Securities Vietnam

Fig 34. Vietnam – Average rice 5% broken prices by month (USD/ton)

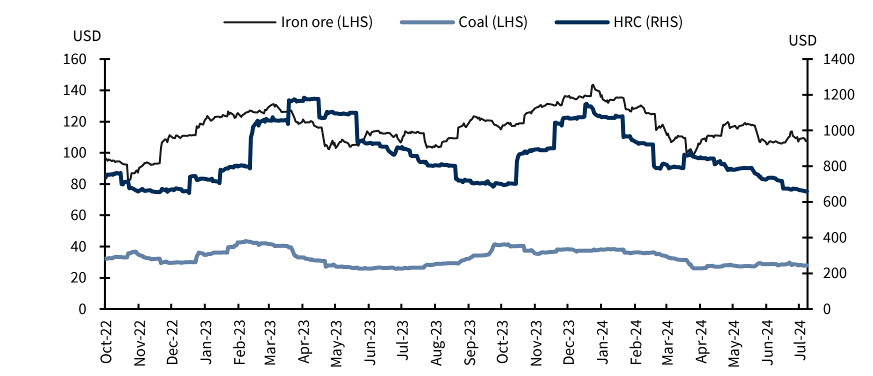


Source: Bloomberg, KB Securities Vietnam

Construction material prices are expected to increase slightly due to improved domestic demand

We believe that construction material prices will bottom out and increase from 3Q24 thanks to the recovery of the residential real estate market, strong FDI inflows, and promoted public investment. However, the recovery rate and price increase will be low because: (i) Input materials for steel production are still on a downward trend (Figure 36); and (ii) consumption demand do not tend to increase sharply as the real estate market, despite its recovery potential, has not been able to bounce back strongly.

Fig 36. Global – Prices of input materials for steel production (USD/ton)

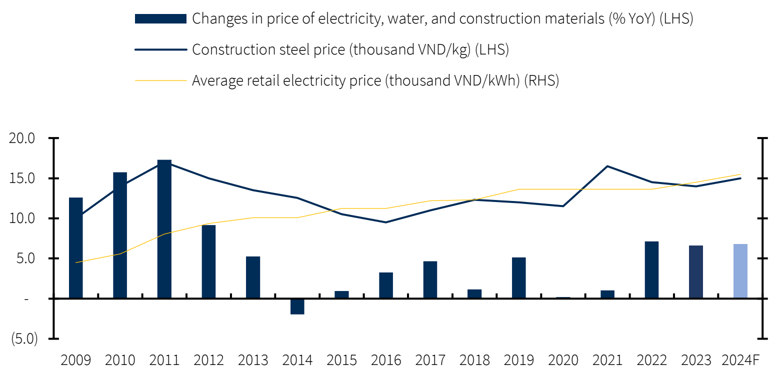


Source: Bloomberg, KB Securities Vietnam

Electricity prices should post a modest gain, which is smaller than in 2023

Higher electricity prices not only directly put pressure on inflation but also affect manufacturing energy-intensive industries such as steel, cement, and paper production. According to estimates by the GSO, a 10% increase in electricity prices will raise CPI by 0.33ppts. In 2023, the retail electricity prices were adjusted twice (up 3% from May 4 and +4.5% from November 9), so the average retail electricity price for the whole year 2023 was VND1,950/kWh, gaining VND68.22/kWh compared to 2022. We believe that EVN will continue to raise the average electricity price by 4-5% by the end of 2024 to improve its financial situation. However, retail electricity prices may not witness the same surges as in 2023 due to less hot weather thanks to the impact of La Nina.

Fig 35. Vietnam – The prices of electricity and construction steel & CPI of electricity, water, and construction materials (VND/kWh, VND/kg, % YoY)



Source: General Statistics Office, FiinPro, KB Securities Vietnam

Tuition and healthcare services fees are increased according to the Government's roadmap

Prices of other goods and services managed by the State will continue to increase according to the roadmap. Tuition fees in 2023-2024 are adjusted according to Decree No. 97. Accordingly, preschool and general education tuition fees remain unchanged; and university and vocational education tuition change is delayed by one year compared to Decree 81 (ie still increased compared to the actual tuition of 2022-2023 because the previous three school years, tuition was kept the same without increasing according to Decree 81). We believe that tuition fees for 2024-2025 will still follow this roadmap, so the increase will be lower. Accordingly, the CPI of the education group is forecast to have a lower increase in 2024, growing 6% from the high base of 2023. In addition, after medical service fees were adjusted according to Circular 22, the Ministry of Health proposed to raise the average price of medical examination and treatment services by 5% from July 2024.

Table 3. Vietnam – Ceiling tuition for public higher education institutions according to Decree 81 (VND/student/month)

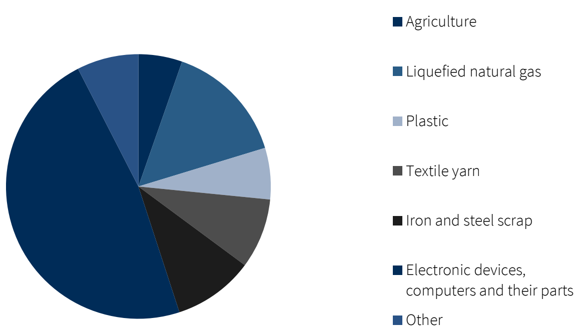
Training sectors	2022-2023	2023-2024	2024-2025	2025-2026
Social sciences, humanities, arts, education and training, journalism, information, and business	1,248	1,328	1,360	1,600
Science, law, and mathematics	1,326	1,411	1,445	1,700
Engineering and information technology	1,870	1,992	2,040	2,400
Production, processing and construction	1,794	1,909	1,955	2,300
Agriculture, forestry, fishery and veterinary medicine	1,287	1,370	1,400	1,650
Healthcare	2,184	2,324	2,380	2,800
Services, tourism and environment	1,560	1,660	1,700	2,000
Security and defense	1,716	1,820	1,870	2,200

Source: The Government Office, KB Securities Vietnam

There are many risks to imports

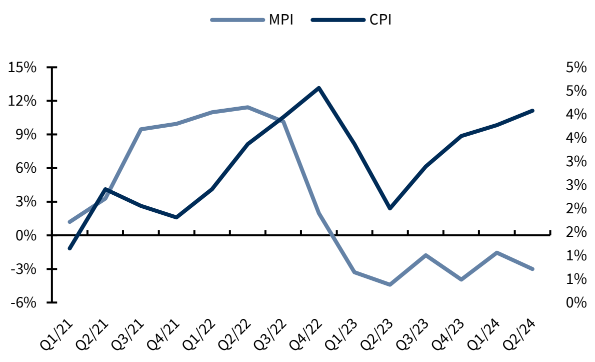
The import price index of key commodity groups including agricultural crops, food, fuel and raw materials for processing and manufacturing is still moving sideways in the low area (Figure 38), which is in line with the world commodity prices. However, the pressure may increase in the near future due to exchange rate fluctuations and increased import demand to serve production. Besides, we also do not rule out the possibility that escalating political conflicts will cause an energy shock, thereby raising world commodity prices. Vietnam is a country that imports a lot of raw materials for production, so this will affect costs and prices, put pressure on businesses and thereby push up the prices of domestic consumer goods.

Fig 36. Vietnam – Proportion of imports



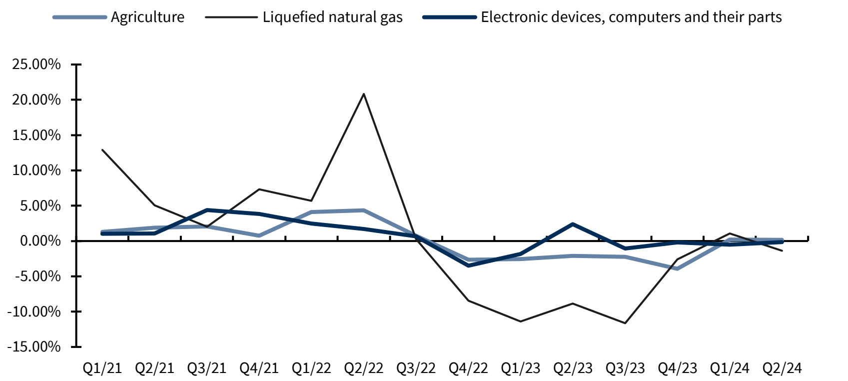
Source: Bloomberg, KB Securities Vietnam

Fig 37. Vietnam – Import price index & CPI (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 38. Vietnam – Import price index of commodity groups (% QoQ)



Source: General Statistics Office, KB Securities Vietnam

Table 4. Vietnam – 2024F average CPI (%)

No.	Groups	Weight (%)	+/- (% YoY)	Contribution to CPI (%)
1	Food and foodstuff			
	Food	3.67	9.5	0.3
	Foodstuff	21.28	2.0	0.4
	Eating out	8.61	3.8	0.3
2	Beverages and tobacco	2.73	2.2	0.1
3	Clothing and footwears	5.7	1.4	0.1
4	Housing, water, electricity, gas and other construction materials	18.82	6.5	1.2
5	Furniture, household equipment and maintenance	6.74	1.0	0.1
6	Medicine & healthcare services	5.39	7.3	0.4
7	Transportation	9.67	2.5	0.2
8	Communications	3.14	-2.0	(0.1)
9	Education	6.17	7.5	0.5
10	Culture, entertainment & tourism	4.55	1.6	0.1
11	Others	3.53	5.0	0.2
Total				**3.8**

Source: KB Securities Vietnam

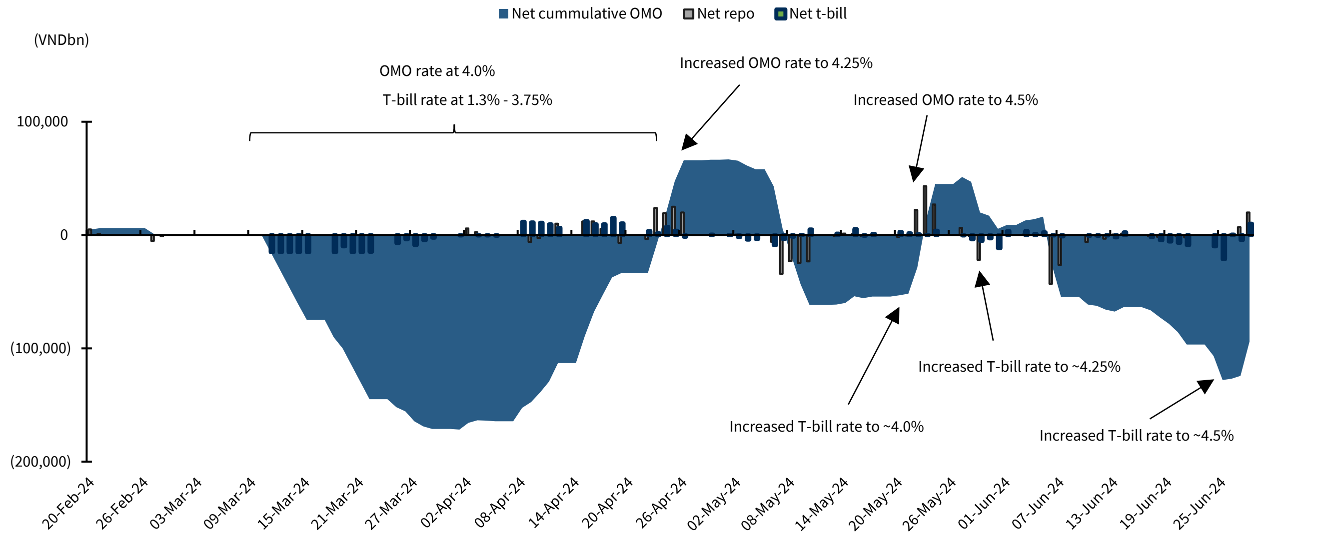
IV. Interest rates

1. 1H24 interest rates

System liquidity narrowed, and interbank interest rates increased

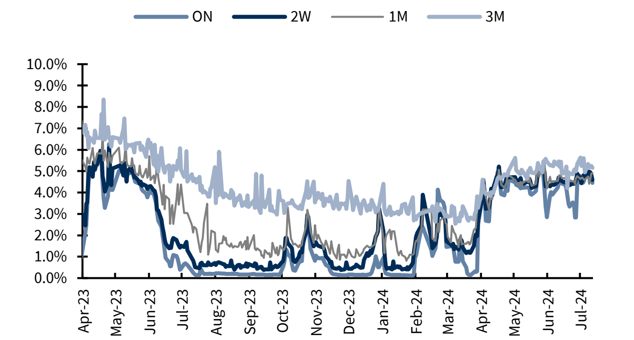
In the face of the tense exchange rate situation throughout 2Q, the SBV took steps to stabilize the exchange rate, including: (i) selling USD and (ii) regulating system liquidity through the open market, combined with increasing OMO and treasury bill interest rates (reaching 4.5% at the end of June) to keep interbank interest rates high enough to limit carry trade. This has caused system liquidity to narrow due to a large amount of VND being withdrawn from the system, interbank interest rates have also increased and fluctuated around 4-5.5%. Transactions in the interbank market were bustling, reaching VND19.5 million billion in 2Q (+39% YoY and +9% QoQ). As of June 28, interbank interest rates for ON, 2W, 1M and 3M terms reached 4.39%, 4.89%, 4.77% and 5.34% (+344 bps, +270 bps, +297 bps and +94 bps YTD), respectively.

Fig 39. Vietnam – OMOs & interest rate developments (VNDbn, %)



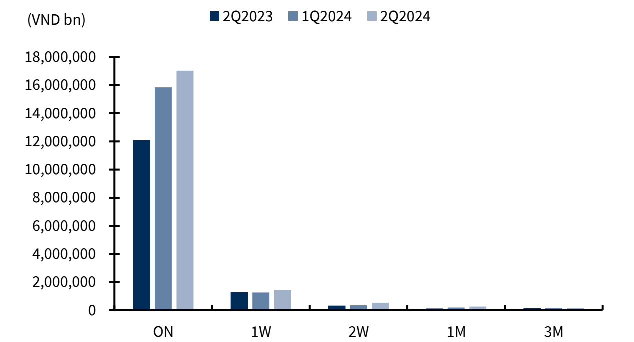
Source: State Bank of Vietnam, KB Securities Vietnam

Fig 40. Vietnam – Interbank interest rates (%)



Source: FiinPro, KB Securities Vietnam

Fig 41. Vietnam – Total interbank transaction value (VNDbn)

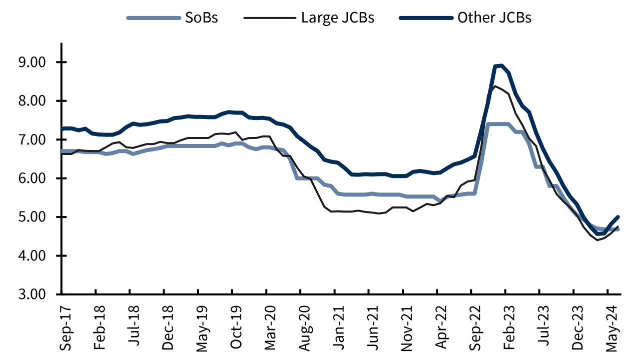


Source: FiinPro, KB Securities Vietnam

Deposit interest rates increased again, while lending interest rates continued to decline

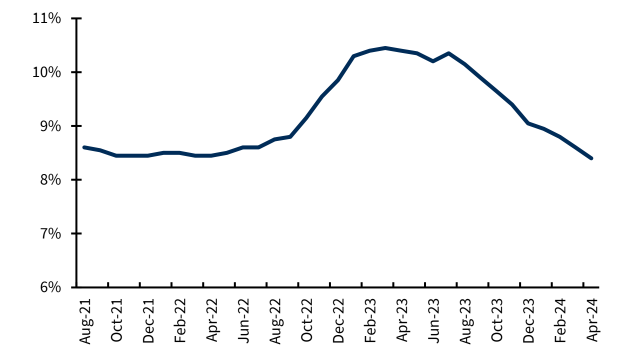
After reaching a historic low in 1Q, deposit interest rates bottomed out and rose 20-45bps compared to the bottom for terms of 1-12 months. This results from a lack of cash in the interbank market due to the SBV's intervention to stabilize exchange rates, while credit growth has also accelerated in 2Q (up 4.2ppts QoQ). In particular, the average 12M deposit interest rates of large joint-stock commercial banks (Asia Commercial Bank – ACB, Military Bank – MBB, Vietnam Prosperity Bank – VPB, and Techcombank – TCB) and other commercial banks reached 4.75% and 5.00% (+35bps and +44bps from the bottom), respectively, while the average rate at the group of state-owned commercial banks remained flat at 4.68%. Meanwhile, lending interest rates are lagged compared to deposit interest rates due to the difference in terms, but the downtrend continued in 1H24. According to the SBV, as of April 2024, the average interest rate of new and old loans with outstanding debt is at 7.3-9.5% (down 1ppt compared to the end of 2023).

Fig 42. Vietnam – 12M deposit rates (%)



Source: Bloomberg, KB Securities Vietnam

Fig 43. Vietnam – Average lending interest rates (%)



Source: Bloomberg, KB Securities Vietnam

Table 5. Vietnam – 12M deposit rate at banks

	Sate-owned commercial joint stock banks			Large commercial joint stock banks				Other commercial joint stock banks								
Date	VCB	CTG	BID	MBB	TCB	VPB	ACB	STB	SHB	HDB	VIB	TPB	SSB	MSB	EIB	OCB
1/1/2024	4.80%	5.00%	5.00%	4.80%	4.70%	5.00%	4.60%	4.80%	5.40%	5.50%	4.90%	5.00%	4.80%	4.60%	5.10%	4.80%
1/2/2024	4.70%	4.80%	4.80%	4.70%	4.60%	5.00%	4.60%	4.80%	4.80%	4.90%	4.70%	4.80%	4.55%	4.00%	4.80%	4.80%
1/3/2024	4.70%	4.80%	4.80%	4.60%	4.40%	4.50%	4.60%	4.80%	4.60%	4.70%	4.50%	4.80%	4.05%	4.00%	4.80%	4.80%
1/4/2024	4.60%	4.70%	4.70%	4.50%	4.40%	4.40%	4.30%	4.50%	4.80%	4.70%	4.50%	4.70%	3.55%	4.00%	4.80%	4.80%
1/5/2024	4.60%	4.70%	4.70%	4.50%	4.30%	4.70%	4.30%	4.70%	4.80%	4.70%	4.80%	4.90%	3.55%	4.20%	4.80%	4.80%
1/6/2024	4.60%	4.70%	4.70%	4.60%	4.50%	4.90%	4.30%	4.70%	4.80%	5.10%	4.80%	5.00%	3.85%	4.20%	4.80%	4.80%
1/7/2024	4.60%	4.70%	4.70%	4.70%	4.80%	5.10%	4.40%	4.70%	5.00%	5.10%	4.70%	5.20%	4.25%	5.10%	4.90%	5.10%

Source: General Statistics Office, KB Securities Vietnam

2. 2024F interest rates

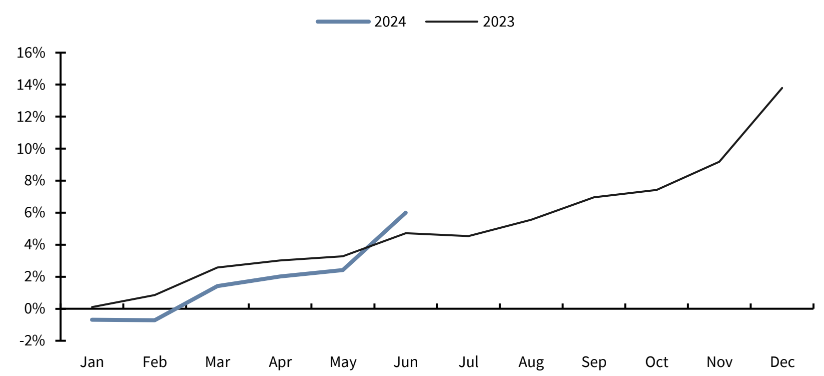
Deposit interest rates are expected to increase further by 50bps from now to the end of the year

We expect deposit interest rates to increase 50bps from now until the end of the year to reach the Covid-19 bottom in the 2020-2021 period. Key factors affecting the deposit interest rates include:

— **Exchange rates may still fluctuate in 3Q, although the risk of a sharp increase is no longer worrisome.** Accordingly, the SBV will keep interbank interest rates high enough to limit carry trade and sell USD to meet the needs of businesses in the context of imports being forecast to continue to increase in the coming time. These will directly impact system liquidity and increase deposit interest rates from the customers channel, especially in the group of small and medium-sized private commercial banks with less flexible deposit sources and banks recording good credit growth.

— **Credit demand is expected to recover, leading to capital mobilization demand and triggering the increase in deposit interest rates at the end of the year.** Credit growth should show a clearer recovery with the warming of the economy in 2H24, driven by: (i) a sharp increase in import turnover in recent months, boding well for the manufacturing industry and export activities in the coming time; (ii) the penetration of monetary and fiscal policies that improved domestic demand; and (ii) the rebounding real estate market. In fact, credit in 2Q recorded an improvement to reach 6% YTD as of June 30 (in 2Q alone, credit increased by 4.6ppts QoQ, much higher than the increase in 2Q23 at 2.1ppts QoQ), mainly led by the real estate group and infrastructure development loans.

Fig 44. Vietnam – Credit growth (% YTD)

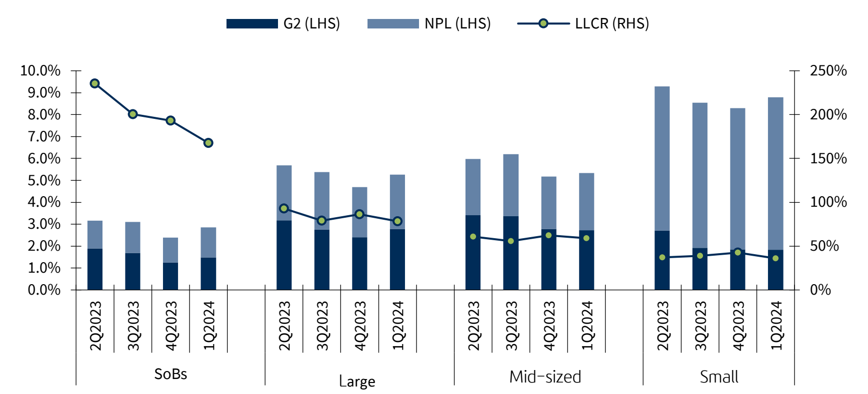


Source: State Bank of Vietnam, KB Securities Vietnam

Lending interest rates have bottomed out and are expected to remain flat or increase slightly by the end of the year

Lending interest rates have dropped to a low level compared to the peak at the end of 2022 in line with the Government and the SBV's policy of lowering interest rates to support economic development. However, with the increase in capital mobilization costs, we believe that lending interest rates have bottomed out and are likely to remain flat or increase slightly by the end of the year. The specific increase will depend on each bank. The group of state-owned banks, due to their role in supporting the economy, will keep interest rates relatively low, while private banks tend to increase interest rates to be in line with the increase in costs of funds. In addition, NPL is still an issue that needs to be watched as banks' reserve buffers have been significantly narrowed, while Circular 02 will expire at the end of 2024. This may cause debt group changes for many customers, so lending interest rates need be adjusted appropriately to balance customers' risks.

Fig 45. Vietnam – NPLs & LLCR at banks (%)



Source: Vietnam Banks, KB Securities Vietnam

V. USD/VND exchange rate

1. 1H24 USD/VND exchange rate

Interbank interest rates were under large pressure

The USD/VND interbank exchange rate was tense in 2Q when it continuously approached and exceeded the SBV's selling threshold at 25,450 (+4.9% YTD). Although the SBV proactively raised the interbank interest rate to a relatively high level to limit banks' carry trade, the exchange rate was still under constant pressure, forcing the SBV to directly sell USD in large volume (estimated at ~USD6 billion as of June 26). Accordingly, we believe that the main reason for the recent increase in the exchange rate is the imbalance between supply and demand of USD in the market, mainly due to (i) the high demand for USD payment for imports and (ii) export and FDI enterprises keeping money abroad due to unattractive VND interest rates.

Unofficial rates saw adverse developments

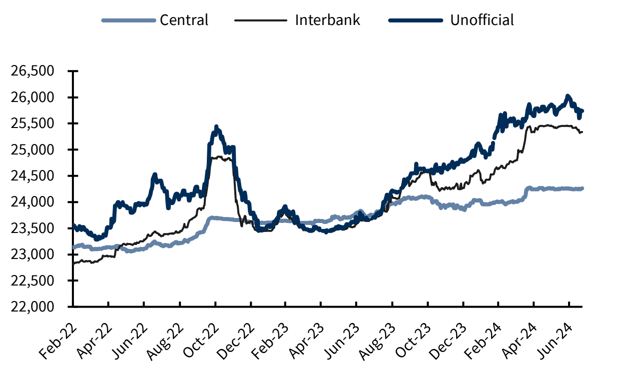
In 1H24, the unofficial exchange rates continued to move negatively, reaching VND26,020/USD for selling as of June 28 (+5.05% YTD). The increase in the unofficial rates was mainly due to the skyrocketing world gold price, creating a large gap between domestic and world gold prices (at times exceeding VND20 million/tael), triggering the demand for smuggled gold. After the SBV allowed SJC and four state-owned banks to buy gold from the bank and sell directly to people, the domestic-international gold price gap also narrowed to VND8-9 million/tael. However, we believe that this measure only has an impact on gold bars and is short-term. In early July, the prices of gold rings were higher than the selling price of SJC gold bars due to fluctuations in world gold prices.

The NEER & REER moved in the same direction

The NEER and REER moved in the same direction in 1H24. On June 26, 2024, NEER and REER respectively lost 0.5% and 0.1% YTD (similar to VND appreciating compared to trading partners and even gaining more strongly when considering inflation factors). NEER decreased mainly because VND depreciated compared to USD, EUR, and CNY but strongly appreciated compared to JPY, KRW and THB, restraining the decline in NEER. The weaker increase in REER reflects that Vietnam's CPI in 1H24 was higher than the average CPI of its main trading partners.

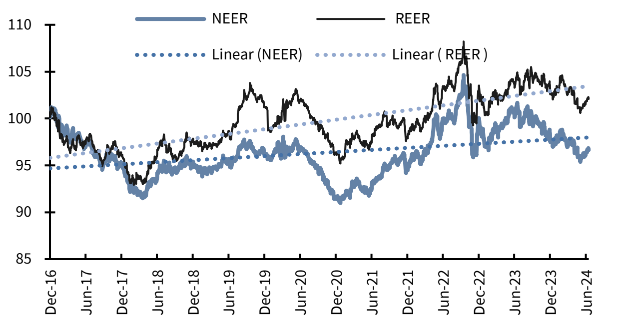
The early period of 2024 is still a difficult period for the SBV to manage exchange rates, especially when there were other existing pressures such as the pressure from gold prices. However, the depreciation rate of VND is at the average compared to currencies of other countries in the region and less than that of KRW, THB, and JPY (Figure 48, 49).

Fig 46. Vietnam – USD/VND exchange rates (VND)



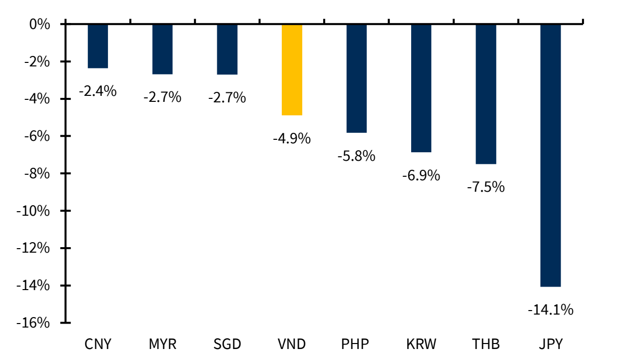
Source: Bloomberg, FiinPro, KB Securities Vietnam

Fig 47. US – NEER & REER (point)



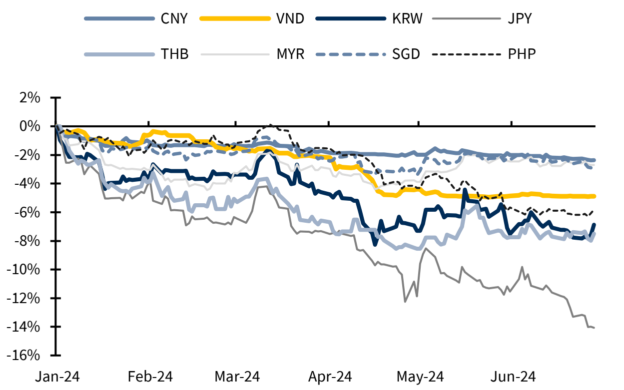
Source: Bloomberg, KB Securities Vietnam

Fig 48. Global – Depreciation of some currencies against the USD (% YTD)



Source: Bloomberg, KB Securities Vietnam

Fig 49. Global – Depreciation of some currencies against the USD (% YTD)



Source: Bloomberg, KB Securities Vietnam

2. 2024F USD/VND exchange rate

Expectations about the Fed rate cut in September

The US unemployment rate increased, while the CPI in June showed a 0.1% MoM decrease and 3% YoY increase, reaching three-year lows. This has raised expectations of the Fed rate slash. According to CME, the market is expecting the Fed to cut interest rates in September with a probability of 95.3%, and there will be three cuts this year. The recent speech of the Fed chairman about not waiting for inflation to fall exactly to the target of 2% before starting to cut interest rates has further reinforced this scenario.

Table 6. US – Probability of rate cuts as of July 18, 2024 (%)

	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
Jul 31, 2024				0.0%	0.0%	0.0%	0.0%	4.7%	95,3%
Sep 18, 2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.5%	91,7%	3,8%
Nov 7, 2024	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	56.8%	39.0%	1,5%
Dec 18, 2024	0.0%	0.0%	0.0%	0.0%	2,4%	51.8%	40.6%	5,0%	0.1%
Jan 29, 2025	0.0%	0.0%	0.0%	1.8%	39,1%	43.5%	14.2%	1.4%	0.0%
Mar 19, 2025	0.0%	0.0%	1.5%	32.0%	42,7%	19.7%	3.8%	0,3%	0.0%
Apr 30, 2025	0.0%	0,8%	19.2%	38.2%	29.4%	10.5%	1.8%	0,1%	0.0%
Jun 18, 2025	0,6%	13.5%	32.3%	32.1%	16.3%	4,5%	0.6%	0.0%	0.0%
Jul 30, 2025	6.3%	21.8%	32.2%	25.2%	11.1%	2.8%	0.4%	0.0%	0.0%

Source: CME Group, KB Securities Vietnam

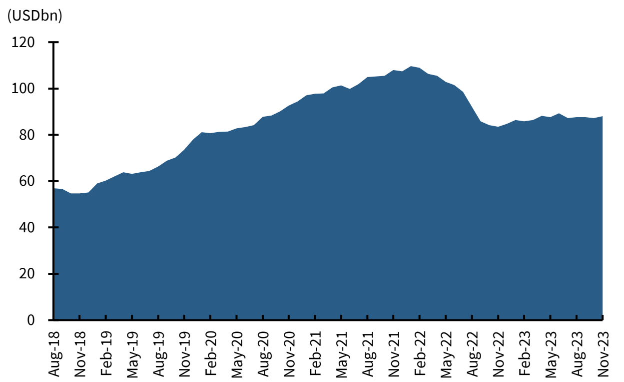
USD/VND exchange rate is expected to gradually stabilize in the second half of the year

With the new developments of the US economy as well as the sharp decline of DXY due to the expectation that the Fed will accelerate interest rate cuts, we believe that the most intense period of the exchange rate has passed. Entering 3Q, the exchange rates may still have fluctuations due to the forecast of high import demand from businesses before cool down in 4Q thanks to the expectation that foreign currency sources will improve when exports are boosted, and remittances flow in parallel with FDI cash flow.
Accordingly, KBSV forecasts that the exchange rate will stabilize again and the increase for the whole year will be at 3.5% YTD, equivalent to VND25,120/USD.

Forecasting the SBV's moves

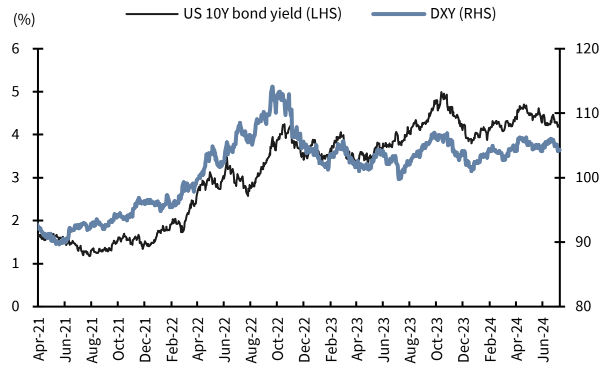
As the exchange rate has shown signs of stabilizing and falling below the SBV's selling threshold, we believe that the bank will continue to focus on regulating liquidity in the open market and keeping interest rates around 4-5% to limit carry trade activities. Foreign currency sales may still be applied at times, but the volume of sales is expected to be relatively small. The increase of the policy rate or the OMO interest rate or treasury bills is not expected to happen.

Fig 50. Vietnam – FX reserves (USDbn)



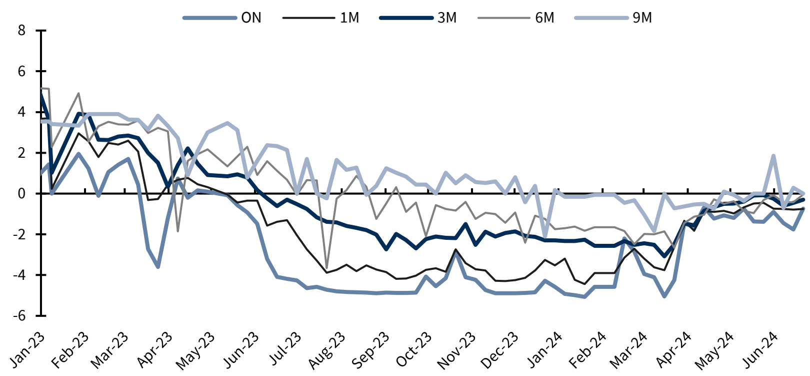
Source: Bloomberg, KB Securities Vietnam

Fig 51. US – 10Y government bond yields & DXY (%, point)



Source: Bloomberg, KB Securities Vietnam

Fig 52. Vietnam – The gap between interbank USD & VND interest rates (%)



Source: State Bank of Vietnam, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks
(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market