Vietnam in Focus:

Strong recovery amid continued global and domestic risk

22 March 2023

TRIS RATING

A Strategic Partner of S&P Global

Key takeaways

Key strengths

- Strong and resilient growth during the pandemic. This year growth will be supported by export of services recovery following China's reopening.
- One of the most attractive destination of FDI among ASEAN peers as the country became an important part of global supply chain and acquired relatively high number of FTAs in ASEAN.
- Adequate international reserves and Vietnam's external debts are mostly public debt with long term maturity and the external debt to GDP ratio is relatively low comparing to peers.

Key risks

- Decline in export of goods from global economic slowdown following dampening global demand from monetary conditions tightening.
- Moderate banking capital buffer to withstand economic challenges.
- Escalating geopolitical risks impact global supply chain and investment environment.

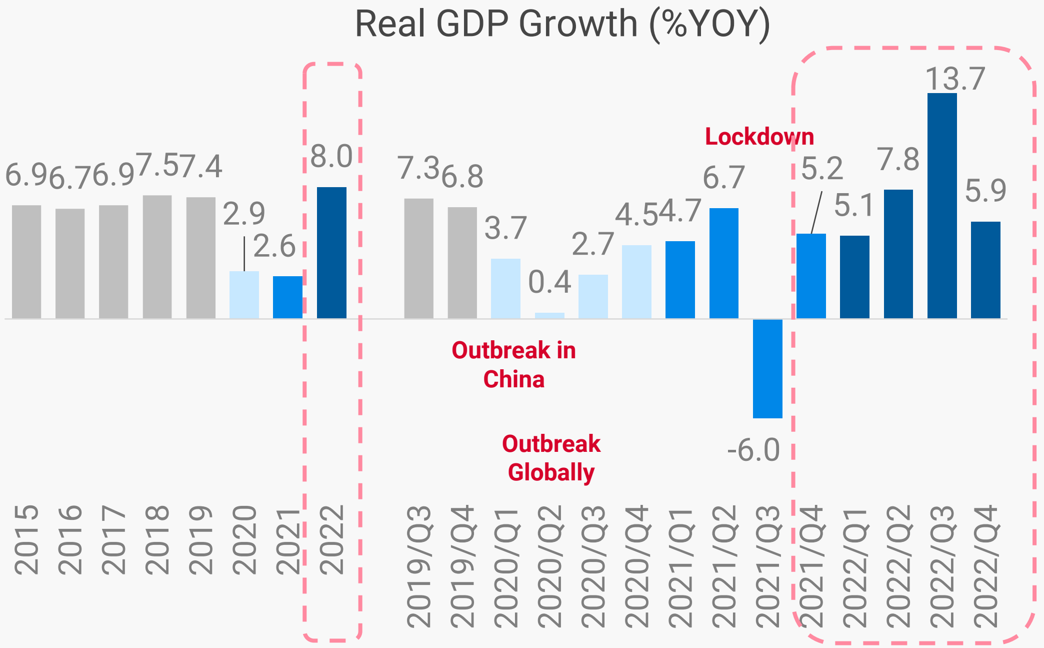
Vietnam economy to slightly decelerate to 6%-7% growth in 2023 amid global economic slowdown

Key indicators	2019	2020	2021	2022F	2023F
Real GDP Growth (%y-o-y)	7.4	2.9	2.6	8.0	6.0-7.0
Headline Inflation rate (%y-o-y)	2.8	3.2	1.8	3.2	3.0-4.0
Current account Balance (% of GDP)	3.6	4.3	-2.1	-0.5	0.9
Foreign currency reserve (Months of Import)	3.2	4.0	3.7	3.2	3.5
Fiscal balance (% of GDP)	-0.4	-2.9	-3.5	-4.7	-4.5

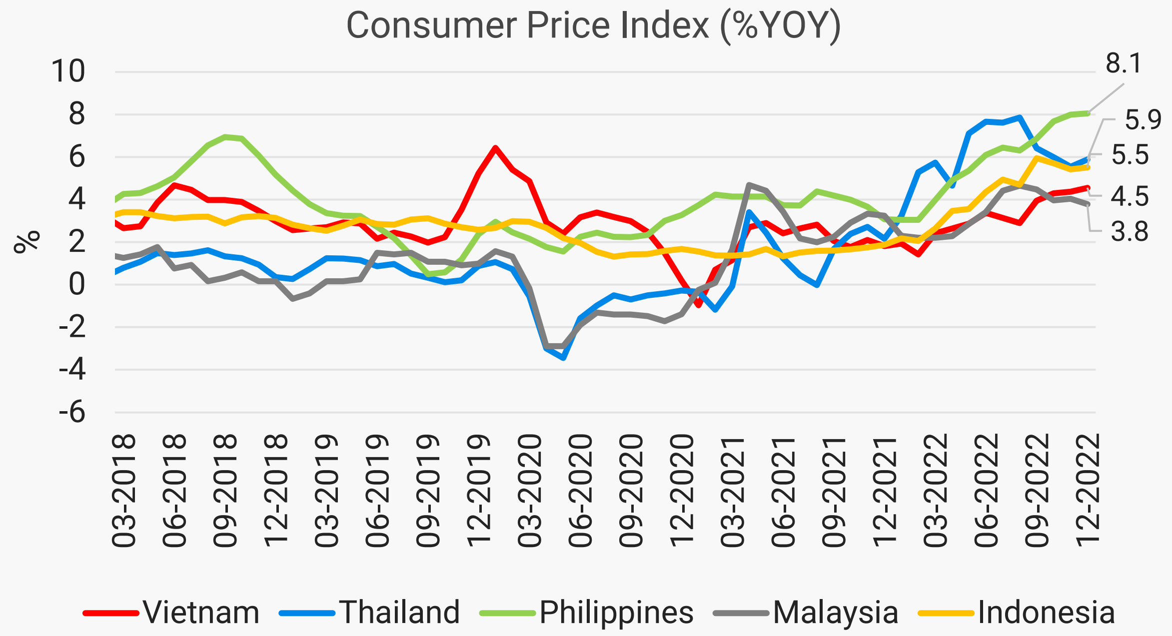
Sources: State Bank of Vietnam (SBV), General Statistics Office of Vietnam (GSOV), Ministry of Finance Vietnam (MOFV), International Monetary Fund (IMF), World Bank, and TRIS Rating

- Vietnam's GDP is expected to continue to grow at 6.0%-7.0%, slower than last year following global economic slowdown and decelerating domestic demand due to less effect of pent-up demand.
- Headline inflation is forecast to be in the range of 3.0%-4.0%. There has been less cost-push pressure from lower energy price recently, but the crude oil price remains high amid China reopening and geopolitical tensions.
- Current account balance and foreign currency reserves to slightly rebound from export of services improvement. We also expect fiscal balance to slightly improve from improving government revenue collection.

Vietnam's economy strongly rebound from the pandemic. Headline inflation has risen recently but still lower than most peers.



Source: GSOV

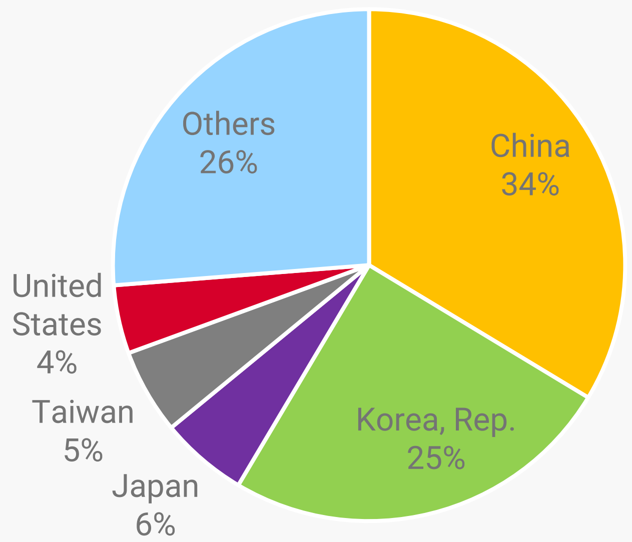


Source: CEIC

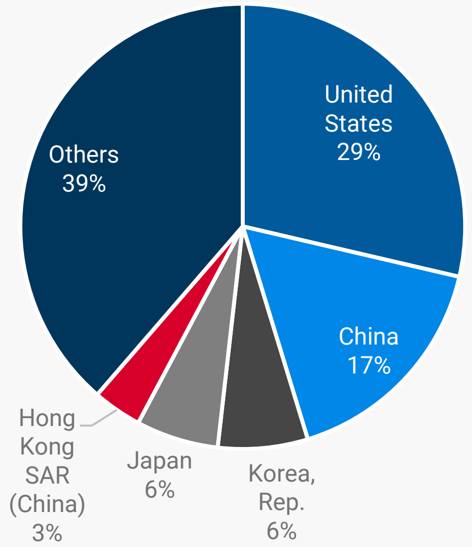
- Vietnam experienced strong economic recovery after lockdown easing in September 2021. Real GDP growth rebounded to 8% in 2022 from 2.6% in 2021.
- Vietnam's headline inflation increased in line with peers to 4.5% in December 2022. The 2022 average was 3.2%, lowest comparing to peers on the back of the government measure to cope with inflation such as environmental tax cut on oil price, oil stabilization fund, and oil price control.

Vietnam growth in 2023 will partly be supported by export of services recovery following China's reopening

International tourist arrival 2019



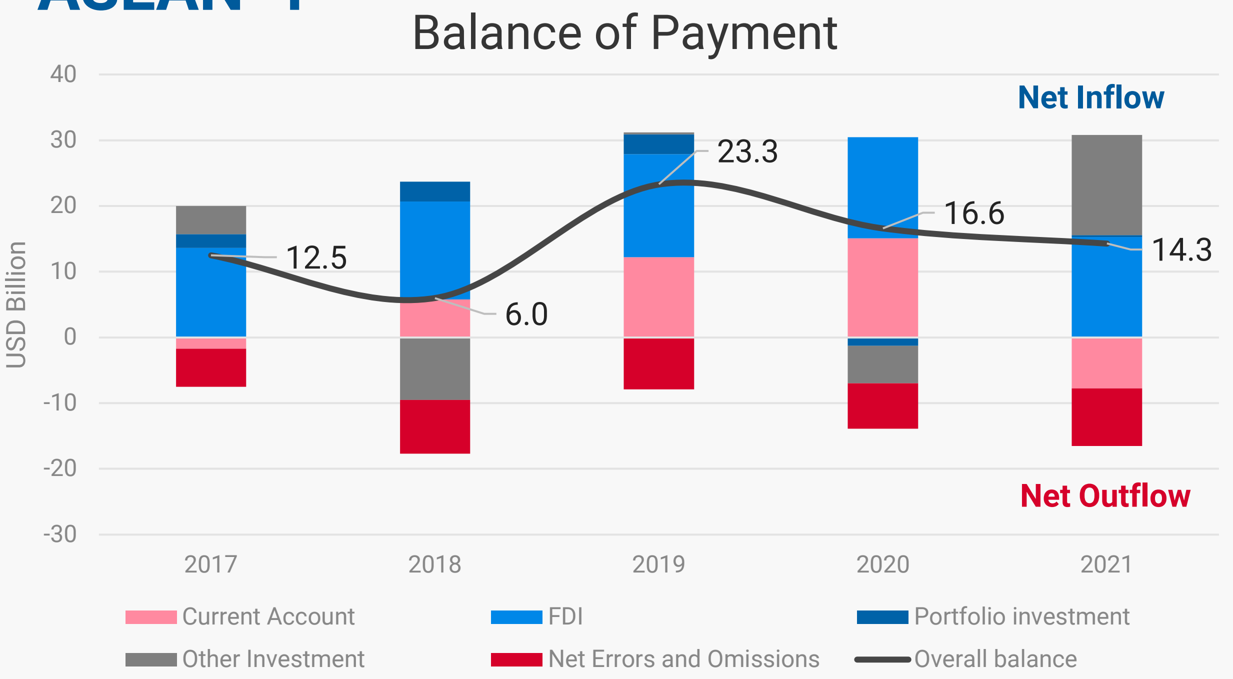
Export Product 2021P
(% in export value)



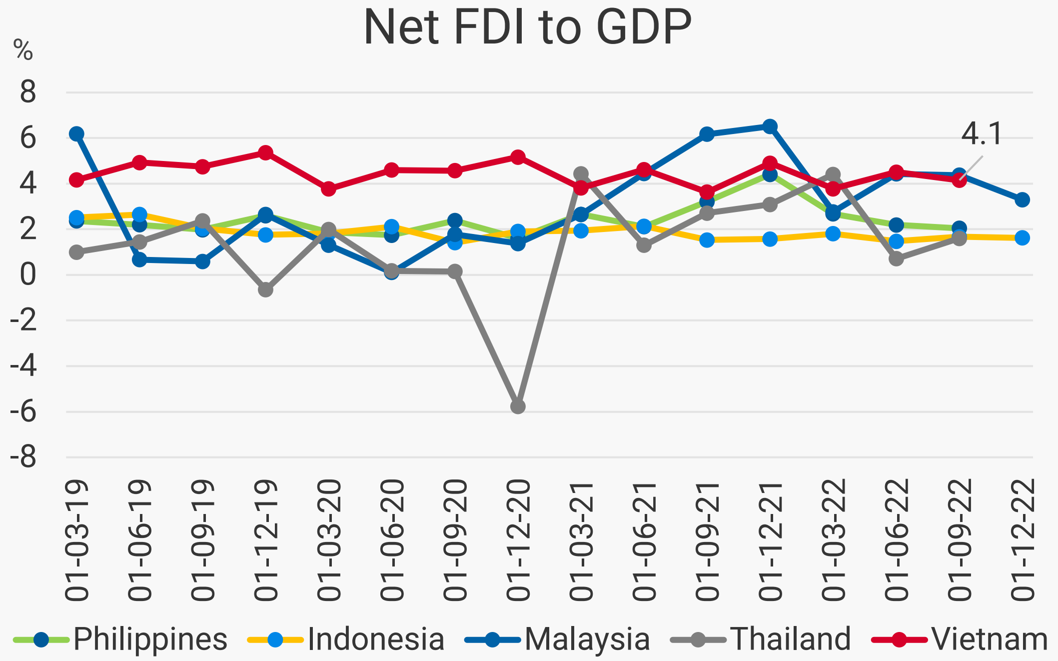
Source: GSOV

- During pre-covid in 2019, international tourist receipts account for 60% of Vietnam's export of services. China reopening in 2023 would boost Vietnam's export of services as Chinese tourists accounted for 34% of total international tourist arrival in 2019.
- China's economic recovery in 2023 would enhance demand and benefit Vietnam's exports as China is one of the top export destination for Vietnam. As of 2021, Vietnam exported 17% of it's products to China.

Positive balance of payment contributes mainly from foreign direct investment. Vietnam has relatively high and stable net FDI inflows to GDP compared to ASEAN-4



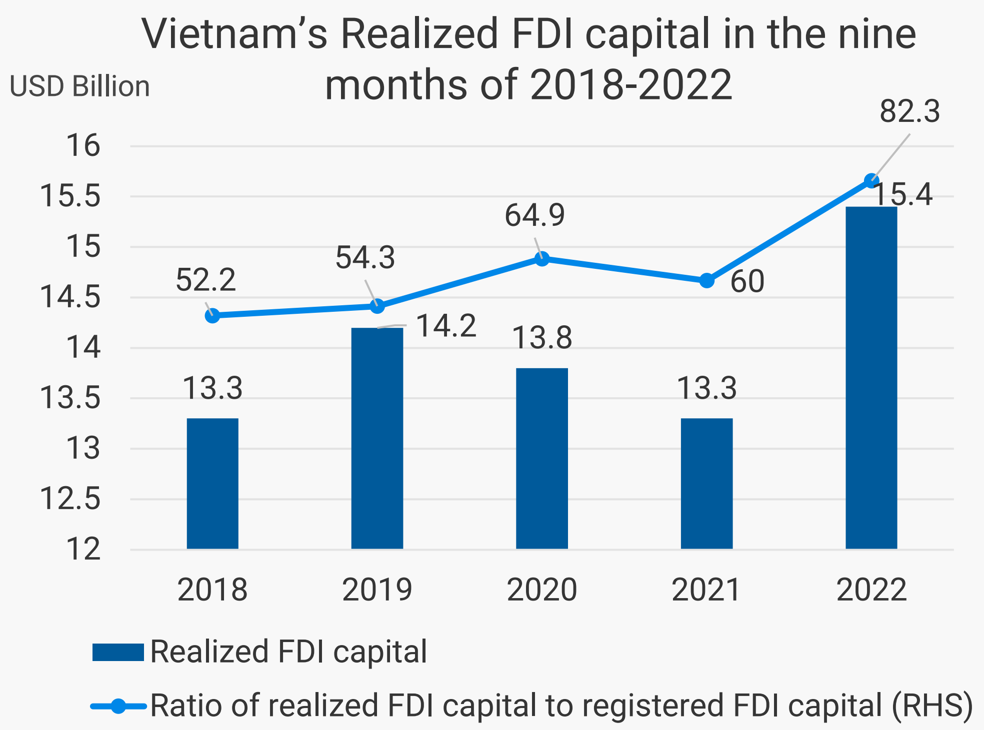
Sources: IMF and SBV



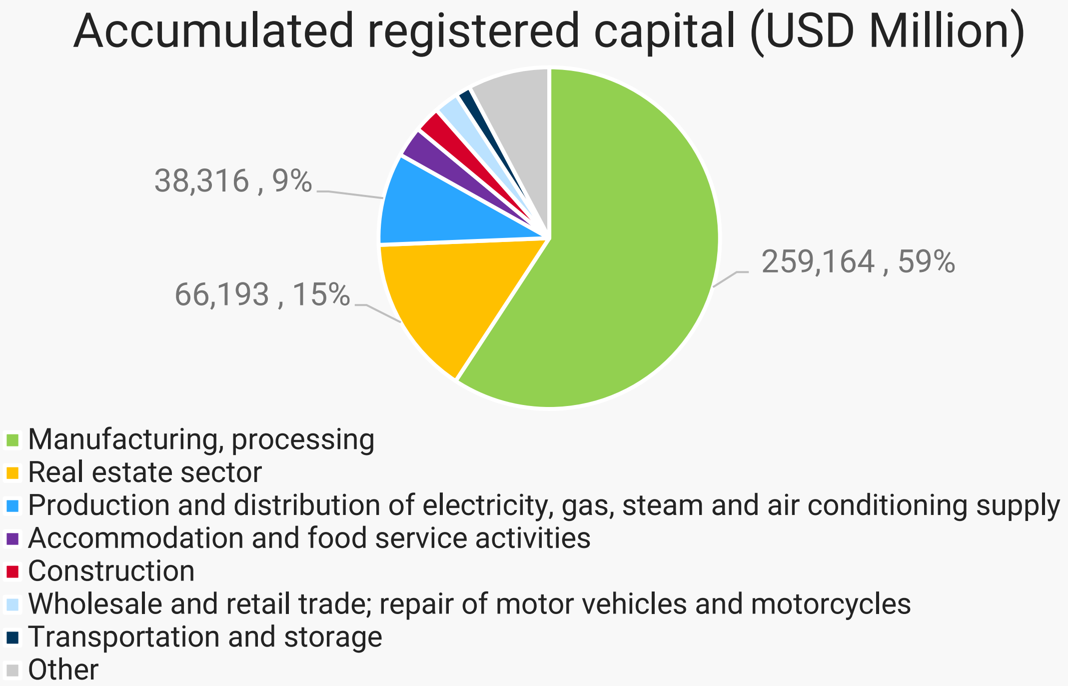
Source: CEIC

- Vietnam's balance of payment was USD14.3 billion in 2021 declined from the pre-pandemic year 2019 of USD23.3 billion due to current account deficit and net errors and omission likely from FX grey market. Positive balance of payment contributes mainly from foreign direct investment.
- The country net FDI to GDP stood at 4.1% in the third quarter of 2022. The figure has been relatively high and more stable comparing to ASEAN-4 peers.

Positive outlook supported by FDI attractiveness especially in manufacturing sector



Source: GSOV

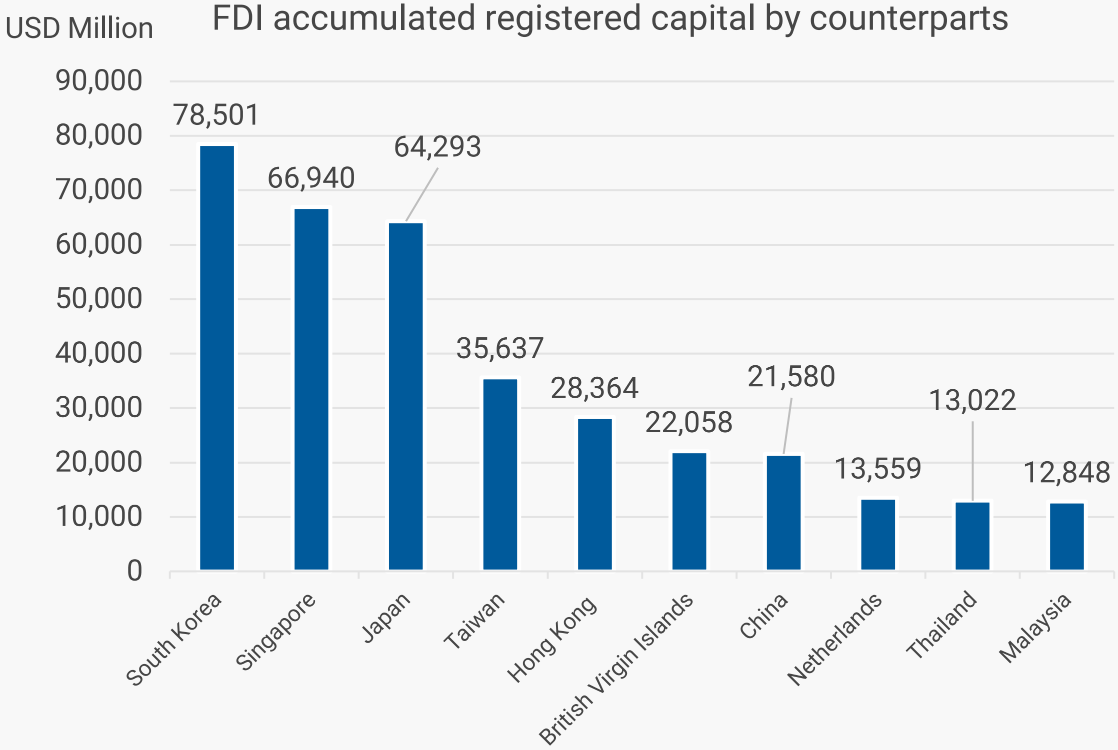


As of 20 November 2022

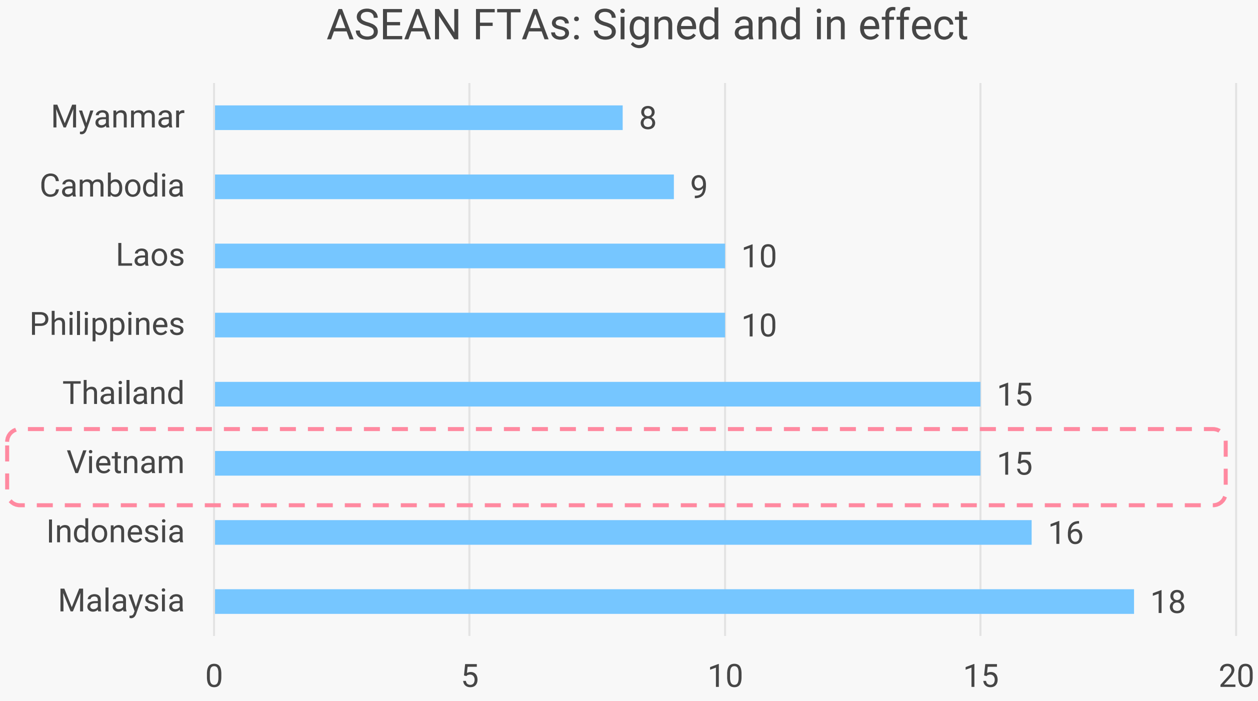
Sources: Ministry of planning and investment of Vietnam

- Registered Capital indicates potential demand; while Realized Capital indicates disbursement of capital into real economy which impact to external balance. 2022 FDI realized capital greatly recovered from the previous year. The ratio of realized to registered FDI for 2022M9 increased to 82.3% from 60% the same period of previous year.
- The country has accumulated 36,109 valid FDI projects worth USD437.52 billion as of November 20, 2022. There is still room for registered capital to be realized as the accumulated realized capital of FDI projects is estimated at USD271.3 billion, equaling 62% of the total valid registered investment capital.
- Manufacturing sector accounts for 59% of total registered capital, followed by real estate sector of 15% and electricity production of 9%.

FDIs increased as Vietnam became an important part of global supply chain, and the country has relatively high number of FTAs in ASEAN



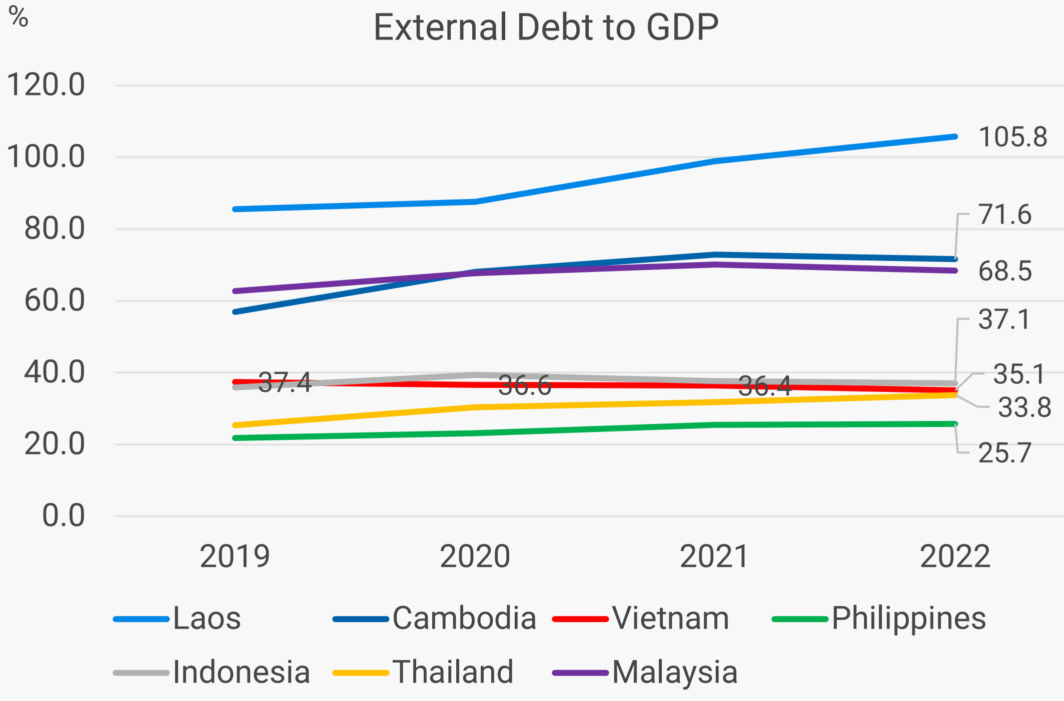
Source: GSOV



Source: Asia regional integration center, Asian Development Bank

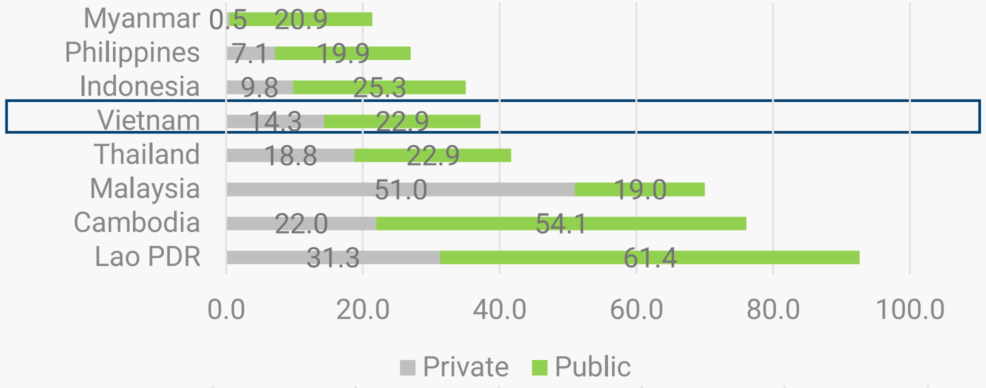
- Vietnam's FDI increased as the country engaged with the manufacturing supply chains of key global economies. Top three countries with highest FDI accumulated registered capital to Vietnam are South Korea, Singapore, and Japan in which they established Vietnam as a manufacturing hub for exports.
- In addition, it's attractive to invest in Vietnam as the country currently has 15 FTAs which are signed and in effect, relatively high comparing to ASEAN peers.

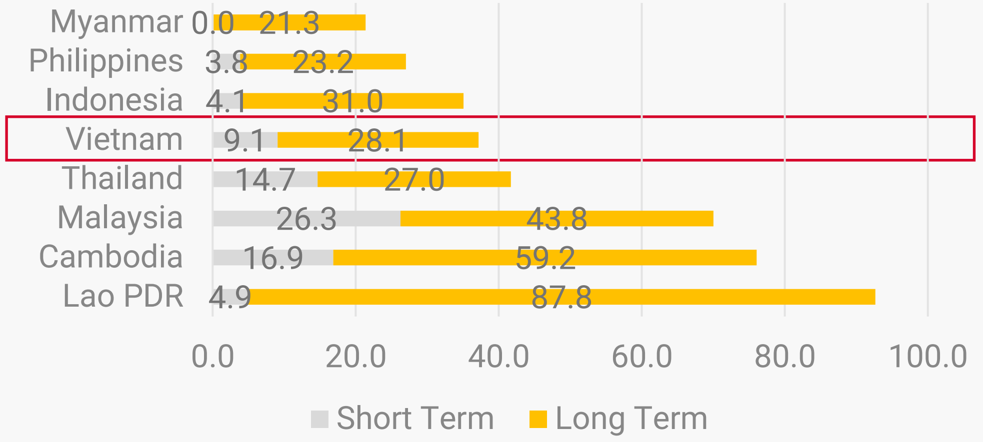
Vietnam's external debts are mostly public debt with long term maturity and the figure is relatively low comparing to peers.



Source: TRIS Rating complied and calculated data from IMF

External Debt to GDP 2021 (%)

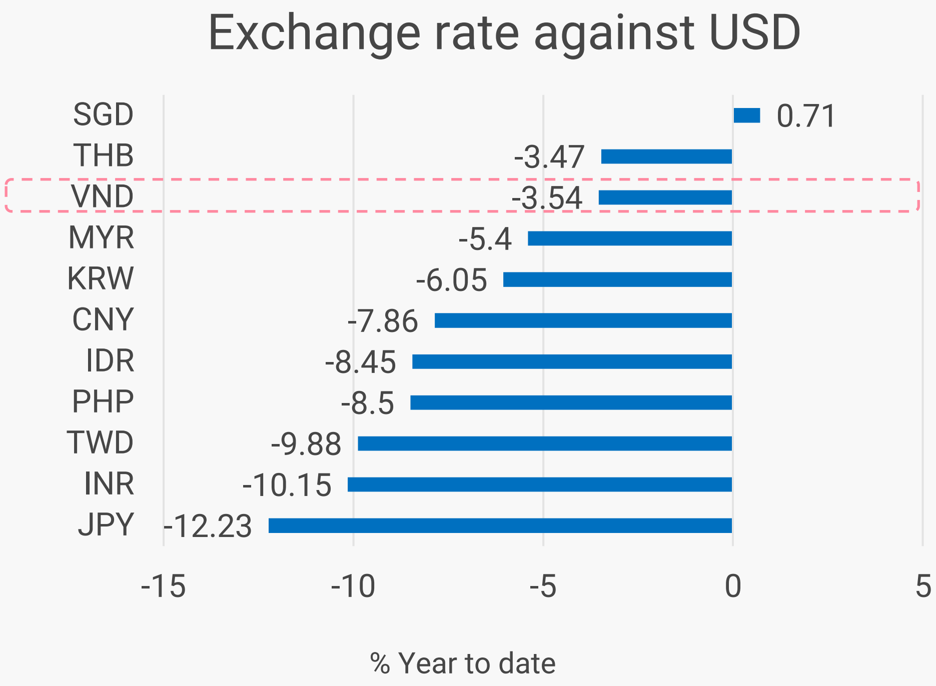


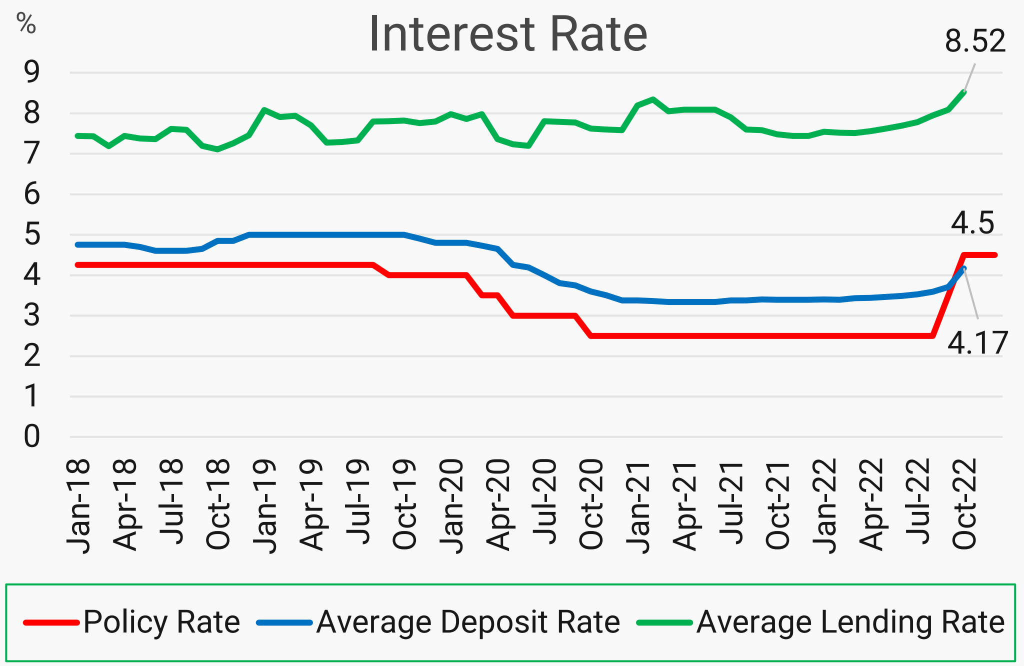


Source: Bank Negara Malaysia, World Bank and IMF

- External debt to GDP is estimated around 35.1% in 2022, less than most ASEAN peers.
- As of 2021, contribution by sector and tenor reveals external debt to GDP of 22.9% as public and 28.1% as long term.

In 2022, Vietnamese Dong weaken less compared to most peers, supported by adequate international reserves and the State Bank of Vietnam monetary policy normalization

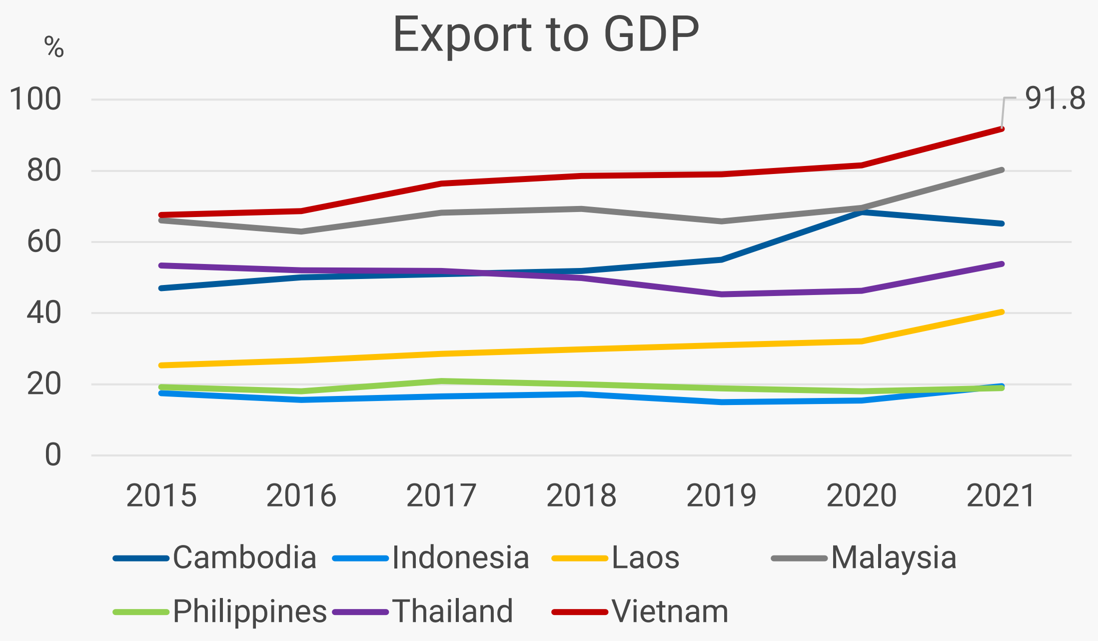


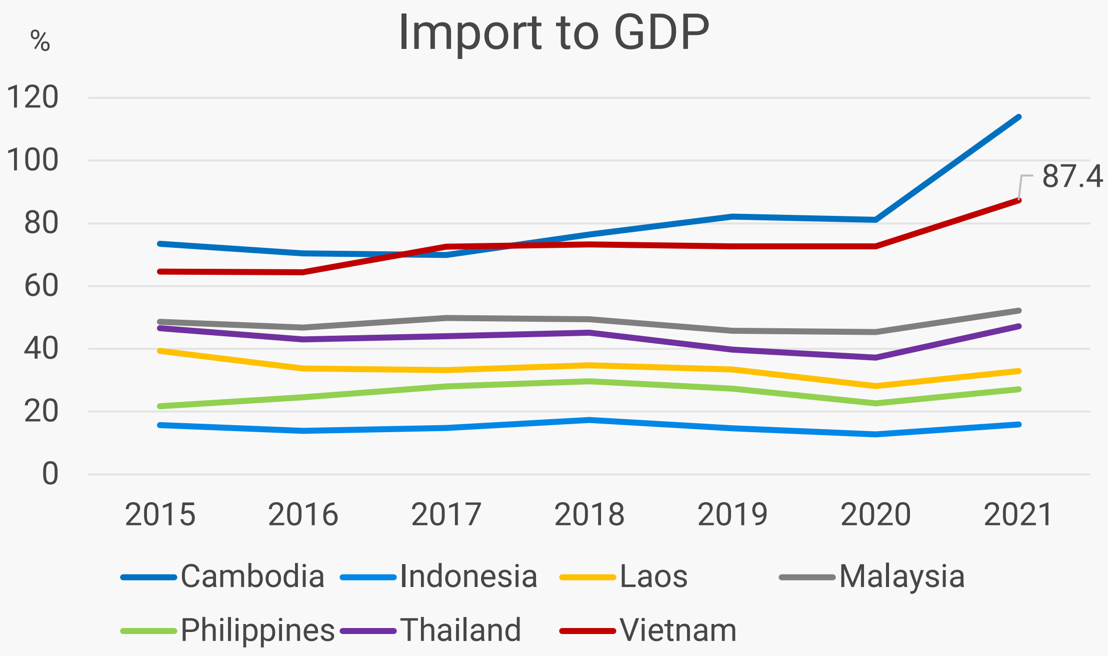


Sources: Bloomberg, as of 31 December 2022, IMF, CEIC

- In 2022, Vietnamese Dong weaken less compared to peers as the State Bank of Vietnam hiked the policy rate by 1% each in September and October meeting of 2022 reaching 4.5% narrowing the interest rate differential between Vietnam and US.
- As of November 2022, the country's International reserves stood at USD83 billion or equaling 3 months of import which is adequate according to the IMF metrics.

Global economic slowdown would weigh on Vietnam's export of goods in 2023

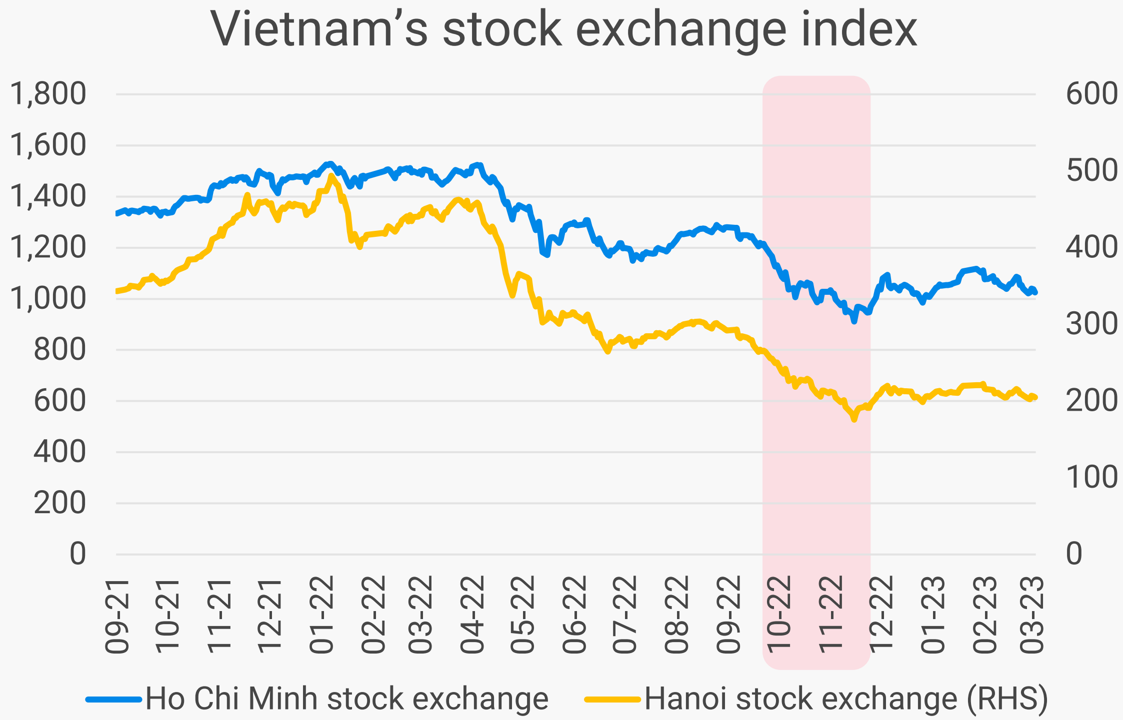




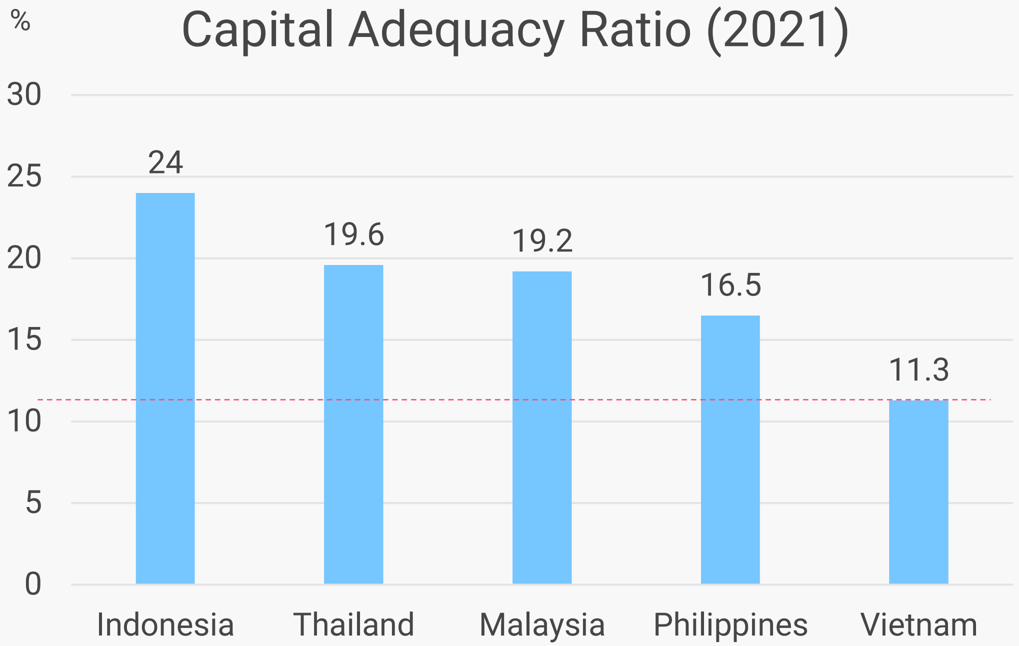
Source: CEIC

- Vietnam economic structure highly relied on external demands. In 2021, Export to GDP was 91.8% while import to GDP was 87.4%. Global economic slowdown would dampen external demand and inevitably impact the country export of goods.

Stock market index dropped in the fourth quarter of 2022 from the banking sector risk and real estate fraud



Source: Bloomberg



Source: Financial Soundness Indicators, IMF

- In 2022, Hanoi and Ho Chi Minh stock exchange significantly dropped by 57% and 33% year-to-date respectively especially in the fourth quarter of 2022 after the real estate tycoons were arrested and Saigon Commercial Bank (SCB) bank run amid hiking policy interest rates.
- In 2021, Vietnam's capital adequacy ratio was 11.3, quite low comparing to peers. Going forward, potential risk in the banking sector should be closely monitored especially loans related to real estate sectors.

Downside Risks and Potential Impacts

Downside Risks	Potential Impacts
Global economic slowdown	Lower global demand from tightening monetary conditions globally weigh on Vietnam exports of goods
Moderate banking capital buffer to withstand economic challenges	Potential risk in the banking sector especially loans related to real estate sectors
Escalating geopolitical risks	Impact on global supply chain and investment environment

Source: TRIS Rating

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