



FX & Rates	2Q24F	3Q24F	4Q24F	1Q25F
USD/VND	24,400	24,200	24,000	23,800
VND Refinancing Rate	4.50	4.50	4.50	4.50
Economic Indicator	2022	2023	2024F	2025F
GDP (%)	8.0	5.0	6.0	6.4
CPI (avg y/y %)	3.2	3.3	3.8	4.2
Current Account (% of GDP)	0.3	1.0	1.0	1.2
Fiscal Balance (% of GDP)	-4.5	-3.0	-2.6	-2.5

ECONOMY

Recovery momentum is intact in 2024

Vietnam ended 2023 in a positive note, as economic growth accelerated to 6.72% y/y in 4Q23, from 5.33% in 3Q23 and 4.14% in 2Q23, on a rebound in manufacturing while both services and agricultural sectors provided further support. The underlying drivers had been a recovery in external trade towards the tail end of 2023 as well as policy support measures including the central bank's rate cuts and credit policy which helped tide the country over a challenging year. It should be noted that the improvement in 4Q23 came on the back of the third consecutive quarter of expansion in the manufacturing sector which suffered an unprecedented decline in 1Q23.

Despite a difficult year, Vietnam's GDP posted an expansion of 5.05% in 2023 which was a tad higher than our expectation of 5.00%. The drag came from the first six months of 2023, which constrained the full year performance. Recall that in the first half of 2023, Vietnam's economy gained just 3.72% y/y, significantly below the 6.46% pace in 1H22. The combined data in Jan-Feb 2024 suggest that the recovery momentum is largely on track.

According to the latest data released by the General Statistics Office (GSO), Vietnam's exports and industrial production in Feb fell sharply. In Feb, exports fell 5% y/y and industrial production contracted by 6.8% y/y, compared to the 42% and 18.3% expansion, respectively, in Jan. The steep declines are largely attributed to Lunar New Year / Tet holidays in Feb this year but took place in Jan last year. For a more meaningful comparison, the combined Jan-Feb data showed that exports rose 17.6% y/y vs Jan-Feb in 2023, while industrial production gained 5.7% y/y vs average -2.2% in Jan-Feb 2023.

Vietnam's purchasing managers' index (PMI) showed that both Jan and Feb 2024 prints were above 50, compared to the average 49.3 reading in Jan-Feb 2023.

These data suggest that the overall momentum in the external trade and manufacturing sectors is showing positive signs and we expect the pace to sustain especially in 2H24 when the recovery in the semiconductor sector is more entrenched and global central banks embark on a more accommodative policy stance.

While risks of external events continue to weigh on global economic prospects (including conflicts in eastern Europe and the Middle East), Vietnam's prospects are bolstered by the recovery in the semiconductor cycle, stable growth in China and the region, as well as supply chain shifts that are in favour of Vietnam and ASEAN. We maintain our growth forecast for Vietnam at 6.0% for 2024, which is within the official 6.0-6.5% target. For 1Q24, we expect GDP growth to ease to 5.5% y/y, due to the Lunar New Year holidays effect (vs. 3.3% in 1Q23). We anticipate inflation pressures to remain on the upside, with a forecast of the headline CPI to stay elevated at 3.8% in 2024, from 3.25% in 2023.

CENTRAL BANK

SBV to keep policy rates steady in 2024

SBV responded swiftly to the economic slowdown early last year with a rapid succession of interest rate cuts. The last policy rate reduction took place in Jun 2023, when it lowered refinancing rate by a cumulative 150bps, to 4.50%. With the pace of economic activities on the mend, the possibility of further rate cuts has diminished. As such, we believe SBV will keep refinancing rate at the current level of 4.50%.

Instead of further lowering interest rates which are constrained by the lower bound, the government has turned its focus to non-interest rate measures to support the economy. One area is channeling of credit to the borrowers (i.e. quantitative measures). In 2023, bank lending rose about 13.5% y/y, marginally short of the 14-15% target set for the year, as the regulator told banks to simplify lending procedures and improve businesses' access to bank loans. For 2024, SBV aims to boost loan growth to about 15% with the flexibility to adjust based on economic developments throughout the year.

CURRENCY

VND likely to recover modestly

USD/VND traded up to a new high of 24,700 late Feb alongside broad USD strength against Asian peers. Despite the near-term weakness in the VND, expectations of a stronger GDP growth in Vietnam (2024's forecast of 6.0% vs 5.05% in 2023) and recovery momentum in the external trade and manufacturing sectors are positive factors that may help to stabilise the VND. A subsequent recovery in the CNY - which the VND tracks - together with renewed USD weakness ahead of the Fed rate cut in Jun will bring forth a modest VND recovery. Our updated USD/VND forecasts are 24,400 in 2Q24, 24,200 in 3Q24, 24,000 in 4Q24 and 23,800 in 1Q25.