

Macro + FX Strategy

Vietnam: Surge In 3Q22 GDP Growth

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- Vietnam's 3Q22 real GDP growth surged 13.7% y/y, supported by the low base of 6% contraction in the same quarter last year as well as continued recovery in manufacturing and services sectors with momentum from reopening.
- The sharp rebound in 3Q22 GDP lays the ground for a strong performance for 2022, and we are raising further the full year forecast to 8.2% from our previous call of 7%, although outlook for 2023 is less optimistic as aggressive tightening from the central banks weigh on the US and Europe.
- Rising concerns of a China slowdown means VND is still likely to be biased weaker in the coming quarters although losses may be cushioned by a strong domestic growth outlook. Overall, we update our USD/VND forecasts to 24,000 in 4Q22, 24,100 in 1Q23, 24,200 in 2Q23 and 24,300 in 3Q23.

Double-digit Surge In 3Q22 GDP Growth

Data released by General Statistics Office on Thu (29 Sep) showed Vietnam's real GDP growth surged by 13.7% y/y in 3Q22, from an upwardly revised 7.8% in 2Q22 (prior estimate: 7.7% y/y). While the outcome came in below consensus estimate of 14.4% y/y, it is the nonetheless the record quarterly increase for Vietnam and narrowly beats India's 13.5% y/y pace in the Apr-Jun quarter to claim the strongest performance in Asia this year.

The sharp rebound in 3Q22 GDP was supported by the low base in the same quarter last year, which shrank by a record 6% y/y as the country essentially shut down during the quarter in response to the Omicron variant of the COVID-19 virus. Meanwhile, the reopening and easing mobility restrictions since the early part of this year helped to spur business activities from 2Q22, especially in the services sector as sentiment improved.

In the first 3 quarters of 2022, Vietnam's GDP rose 8.8% y/y YTD, against 6.4% in the first 2 quarters of the year. Activities accelerated across the main sectors in the 1Q-3Q period, including construction (8.6% y/y YTD vs. 3.7% in 2Q), manufacturing (10.7% vs. 9.7% in 2Q), and services (10.6% vs. 6.6% in 2Q).

Recovery is particularly discernible in the service sector, as accommodation & food segment jumped by 41.7% y/y YTD against 11.2% in 2Q, while entertainment/recreation segment surged by 14.5% y/y YTD from 8% in 2Q as restrictions eased and foreign visitors returned.

Other monthly data releases also showed that activities have generally returned to normal along with the easing of COVID-19 measures and borders reopening.

Domestically, retail sector benefited significantly, as it stayed in positive territory for the 8th consecutive month and recorded 15.8% y/y YTD to 3Q22, extending the 11.3% y/y gain in 1H22. Particularly, tourism related spending surged by 294.9% y/y YTD to 3Q22, from 94.4% y/y YTD to Jun.

On the external front, the slowing in both exports and imports could portend to slowing demand ahead as tightened policy from major central banks weigh on sentiment and activities. Exports rose 10.3% y/y, substantially slower than the YTD gain of 17.3%, while exports value amounted to USD29.9 bn in Sep, lower than the average of USD31.3 bn so far in 2022. Similarly for imports, which gained 6.4% y/y in Sep, against 13% y/y YTD. Cumulative trade surplus this year came in at USD 6.5 bn in Sep, exceeding the full year trade surplus of USD4.8 bn in 2021.

Foreign direct investments (FDI) remained positive, with an inflow of USD 15.4 bn YTD to Sep, compared to USD10.1 bn in the first six months of 2022, for a gain of 15.6% y/y YTD. On an annualized basis, FDI this year looks to be on track to at least match the total inflows of USD19.7 bn recorded in 2021.

However, pledged or registered FDI — which indicate the size of future FDI disbursements continued to underwhelm in 2022. The headline registered FDI fell 15.3% y/y in to USD18.8 bn YTD to Sep, vs USD22.1 bn in the same period a year ago. Of the pledges, 64% are slated for manufacturing and processing sector, while 19% targeted for real estate. Singapore was the top source of FDI pledges, followed by Japan and South Korea.

The latest CPI print suggests that upward pressures on inflation remain present. Headline CPI rose 3.9% y/y in Sep from 2.9% in Aug, the fastest pace since Mar 2020 and near the central bank's top end of 4%. Likewise, core inflation (ex food and energy) gained 3.8% y/y in Sep from 3.1% in Aug, for the second straight month of standing above 3% and at the strongest since record began in 2015. Higher costs of transport, food, and housing are the main drivers for the headline inflation and are likely to remain so for now.

Upgrading GDP Forecast For 2022

The sharp rebound in 3Q22 GDP has provided a strong foundation in the first 9 months of the year, laying the ground for a strong performance for 2022. With 8.8% y/y YTD gain in the bag, we are raising further the full year growth forecast for Vietnam to 8.2% (vs. our previous call of 7%).

However, more concerning is the outlook for 2023, as aggressive policy tightening from major central banks are expected to weigh on the US and Europe, the two major exports markets that accounted for 41% share of Vietnam's exports. Indeed, in our latest Quarterly Global Outlook, we expect a recession for the major economies in 2023 although it is uncertain at this point the extent and duration of the downturn (For more details, please refer to [Quarterly Global Outlook 4Q 2022](#)). We are keeping our 2023 GDP growth projection for Vietnam at 6.6%, with the anticipation of slowing demand from the key markets.

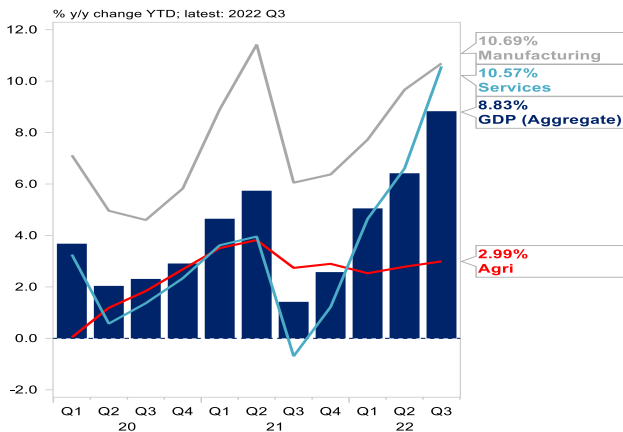
As for monetary policy, the State Bank of Vietnam (SBV) surprised with an interest rate tightening late afternoon of 22 Sep, thereby signaling the start of its policy normalization cycle after a hawkish US Fed raised its benchmark interest rate by 75bps for the third straight time that morning. SBV hiked two of its policy rates by 100bps each, lifting the refinancing rate from historic low of 4.00% to 5.00%. Against the backdrop of an aggressive US Fed policy stance, strong US dollar, weakened VND and inflation rate poised near the top of SBV's target, we see room for SBV increasing a further 100bps to the refinancing rate in a paced manner over the next 2 quarters. This would bring the refinancing rate to 5.50% by end-2022 and then to 6.00% by end-1Q23, the same level that prevailed just before the COVID-19 was declared a global pandemic in Mar 2020.

On the FX front, the VND has not been spared from the Asia-wide weakness inflicted by the aggressive repricing in Fed rate hike expectations and rising concerns of a China slowdown. As such, VND is still likely to be biased weaker in the coming quarters although losses may be cushioned by a strong domestic growth outlook. Overall, our USD/VND forecasts are set at 24,000 in 4Q22, 24,100 in 1Q23, 24,200 in 2Q23 and 24,300 in 3Q23.

	22 Sep 2022	4Q22F	1Q23F	2Q23F	3Q23F	4Q23F
VND Refi Rate	5.00	5.50	6.00	6.00	6.00	6.00

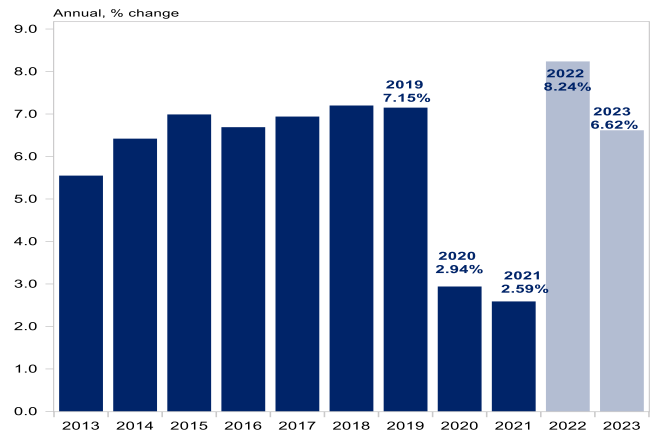
Vietnam: Real GDP by Sectors YTD, Quarterly

Source: Macrobond, UOB Global Economics & Markets Research



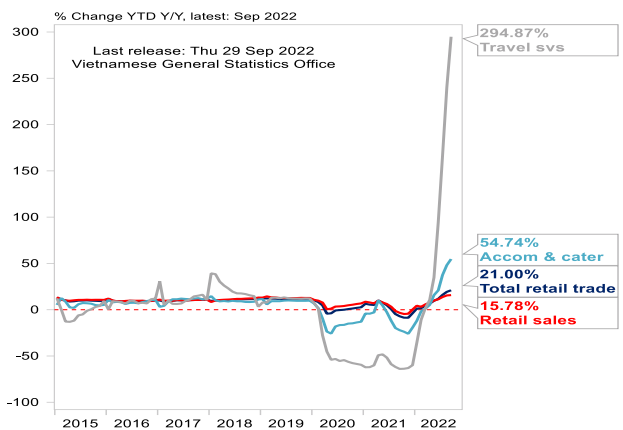
Vietnam: Real GDP Growth (VND)

Source: Macrobond, UOB Global Economics & Markets Research



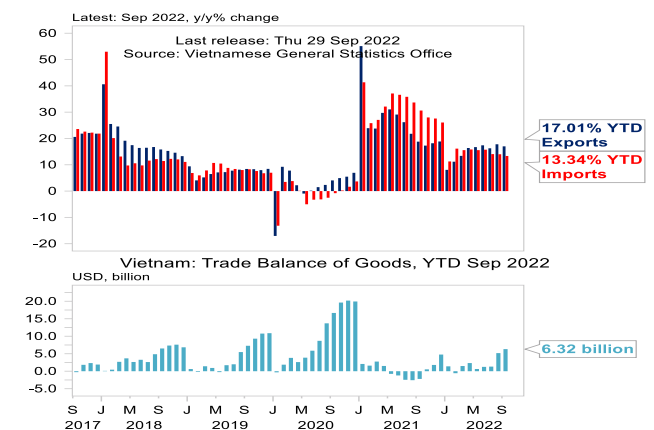
Vietnam: Retail Trade By Sectors, % Change YTD Y/Y

Source: Macrobond, UOB Global Economics & Markets Research



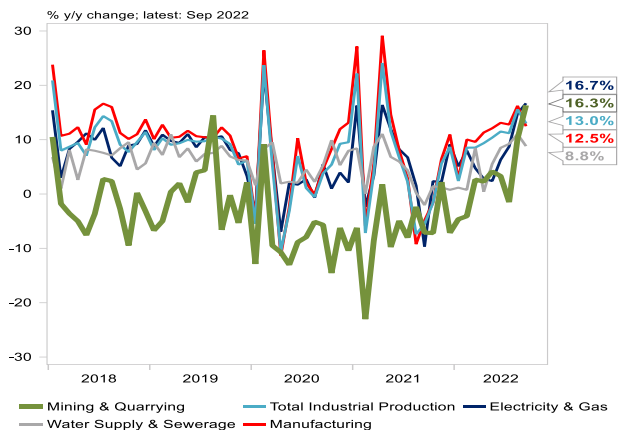
Vietnam: Foreign Trade, Monthly, YTD Sep 2022

Source: Macrobond, UOB Global Economics & Markets Research



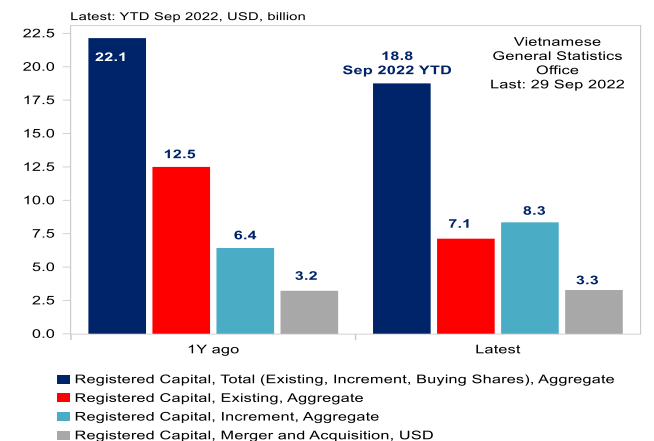
Vietnam: Industrial Production, Monthly

Source: Macrobond, UOB Global Economics & Markets Research



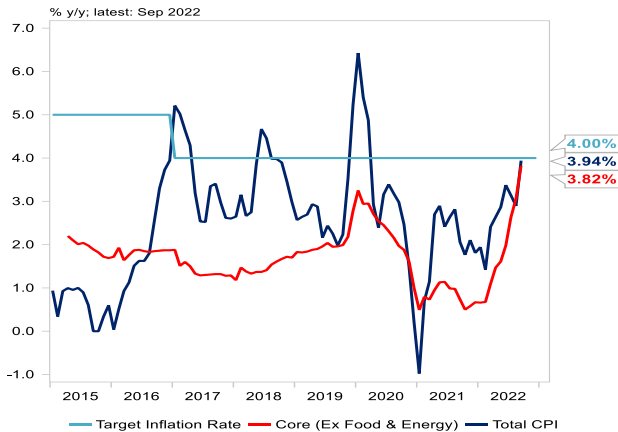
Vietnam: Foreign Direct Investment, Registered Capital (YTD Aggregate)

Source: Macrobond, UOB Global Economics & Markets Research



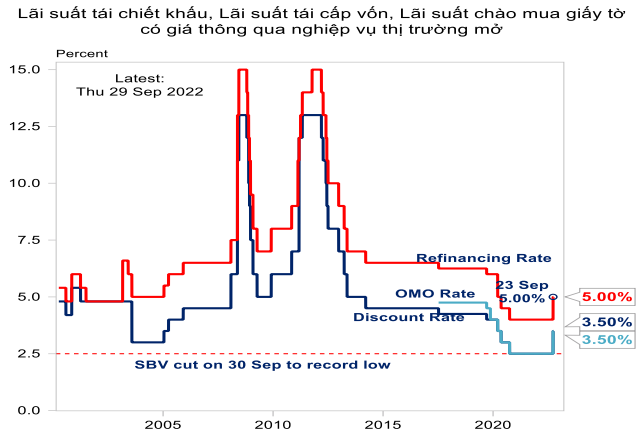
Vietnam: Consumer Price Index, Monthly

Source: Macrobond, UOB Global Economics & Markets Research



Vietnam: Policy Rates

Source: Macrobond, UOB Global Economics & Markets Research



Vietnam: Real GDP Components, Aggregate YTD

Source: Macrobond, UOB Global Economics & Markets Research

Last release: 2022-09-29 Vietnamese General Statistics Office	% y/y change	2022 Q3 YTD	Prev Qtr YTD	1Y ago YTD
	-5 0 5 10 15			
Total (Aggregate)	▲	8.83	6.42	1.42
Agriculture, Forestry & Fishing, Total	▲	2.99	2.78	2.74
Agriculture, Forestry & Fishing, Agriculture	▲	2.43	2.31	3.32
Agriculture, Forestry & Fishing, Fishery	▲	4.43	3.95	0.66
Agriculture, Forestry & Fishing, Forestry	▲	5.20	4.97	3.30
Industry, Industry & Construction, Total	▲	9.44	7.70	3.57
Industry, Construction	▲	8.55	3.65	-0.58
Industry, Electricity, Gas, Steam & Air Conditioning Supply	▲	7.71	6.10	5.24
Industry, Industry	▲	9.63	8.48	4.45
Industry, Manufacturing, Total	▲	10.69	9.66	6.05
Industry, Mining & Quarrying	▲	4.42	2.28	-7.17
Industry, Water Supply, Sewerage, Waste Management	▲	7.03	6.51	4.14
Services, Total	▲	10.57	6.60	-0.69
Services, Accommodation & Food Service Activities	▲	41.70	11.19	-23.18
Services, Activities of Communist Party, Public Admin	▲	3.01	2.76	3.02
Services, Activities of Households as Employers	▲	3.76	3.16	3.11
Services, Administrative & Support Service Activities	▲	31.06	6.20	-14.62
Services, Arts, Entertainment & Recreation	▲	14.48	8.08	-6.14
Services, Education & Training	▲	5.51	5.27	4.19
Services, Financial, Banking & Insurance Activities	▲	9.05	9.50	8.37
Services, Human Health & Social Work Activities	▲	-2.67	8.05	21.15
Services, Information & Communication	▲	7.65	6.06	5.24
Services, Other Service Activities	▲	19.13	5.21	-11.38
Services, Professional, Scientific & Technical Activities	▲	6.25	6.38	5.72
Services, Real Estate Activities	▲	6.50	3.94	-0.78
Services, Transportation & Storage	▲	14.20	8.13	-7.79
Services, Wholesale & Retail; Repair of Motor Veh	▲	10.24	5.82	-3.10
Taxes Less Subsidies on Products, Total	▲	5.62	4.76	0.98

■ Latest YTD ▲ 1Y ago

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