

Economic Flash

Slowing Vietnam's economy under growing uncertainties

Economic slows down on growing uncertainties

According to GSO's estimates, Vietnam's GDP (at 2010 constant price) decelerated in 4Q22 with a growth rate of 5.92% YoY, 7.80 percentage points (ppts)-lower than in the previous quarter, under the global slowdown and the fading low-base effect. External demand has significantly weakened under the worldwide phenomenon of the rate hike, resulting in poor performance of the export activity and its corresponding industrial production. Besides, domestic consumers tend to weigh more on income prospects, which likely became worse due to the prevailing business scale-down in industrial and real-estate sectors, in their buying decisions when the pent-up demand gradually disappeared.

Retail sales remains favorable on the seasonality

According to GSO's estimate, retail sales in December remained bright due to the current shopping season. However, the low-base effect was fading, resulting in a less impressive growth rate in the year-over-year comparison. Specifically, the YoY December growth rate was 1.06% in 2021 while that of the pre-pandemic level was at 12.03% and 12.72% in 2019 and 2018, respectively. In more detail, revenue from selling goods and services to customers during this period rose by 17.13% YoY, 3.44% higher than in November, and reached VND515.82tn.

Core CPI increases persistently

Traffic index played an important role in decelerating CPI this month. Specifically, CPI in December 2022 declined by 0.01% MoM and increased accordingly by 4.55% compared to the same period last year. In addition, core-CPI grew persistently at 0.33% MoM and 4.99% YoY. Regarding the yearly average change, CPI rose by 3.15% YoY this month which meets the government's target of 4.00% proposed in Resolution 01/NQ-CP on the social-economic development plan and tasks in 2022.

KIS leading economic index

	1Q22	2Q22	3Q22	4Q22	2020	2021	2022
GDP (%)	5.03	7.72	13.67	5.92	2.91	2.58	8.02
Trade balance (USD bn)	1.50	(0.75)	5.78	4.44	19.86	4.00	11.20
CPI (%)	2.50	2.96	3.32	4.41	3.24	1.84	3.15
Discount rate (%)	2.50	2.50	3.50	4.50	2.50	2.50	4.50
USD/VND	22,900	23,139	23,712	23,658	23,252	22,936	23,658
US GDP (% qoq, annualized)	(1.60)	NA	NA	NA	(3.40)	5.60	NA
China GDP (% yoy)	4.80	NA	NA	NA	2.20	8.00	NA

Source: KIS

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I. Economic slows down on growing uncertainties

Economic slowdown under growing uncertainties

According to GSO's estimates, Vietnam's GDP (at 2010 constant price) decelerated in 4Q22 with a growth rate of 5.92% YoY, 7.80 percentage points (ppts)-lower than in the previous quarter, under the global slowdown and the fading low-base effect. External demand has significantly weakened under the worldwide phenomenon of the rate hike, resulting in poor performance of the export activity and its corresponding industrial production. Besides, domestic consumers tend to weigh more on income prospects, which likely became worse due to the prevailing business scale-down in industrial and real-estate sectors, in their buying decisions when the pent-up demand gradually disappeared.

Regarding sectoral development, services decelerated the most when the low-base effect entered the last stage with a growth rate of 8.12% YoY, 11.23ppts-lower than 3Q22. Similarly, industrial and construction (IC) grew by 4.22% YoY due to the global slowdown and corresponding fewer orders to domestic manufacturers. In the stable development, AFF (agriculture, fishery, and forestry) rose by 3.85% YoY, nearly similar to its previous growth rate in 3Q22.

Figure 1. Historical GDP growths and sectoral contribution

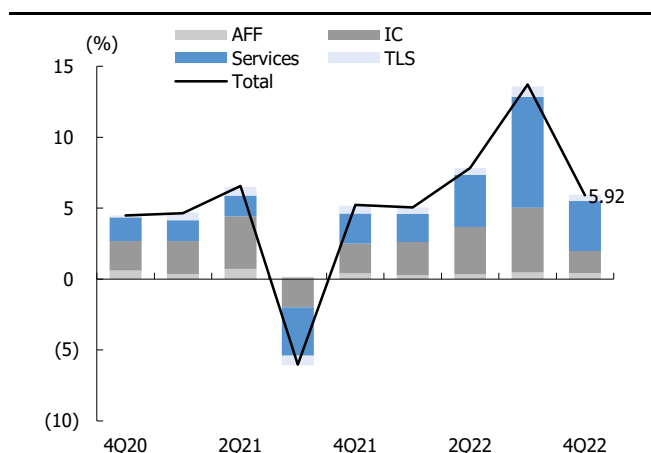
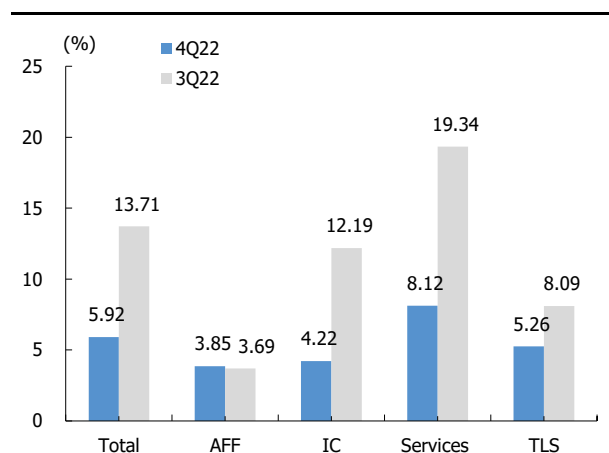


Figure 2. GDP growth by main sector



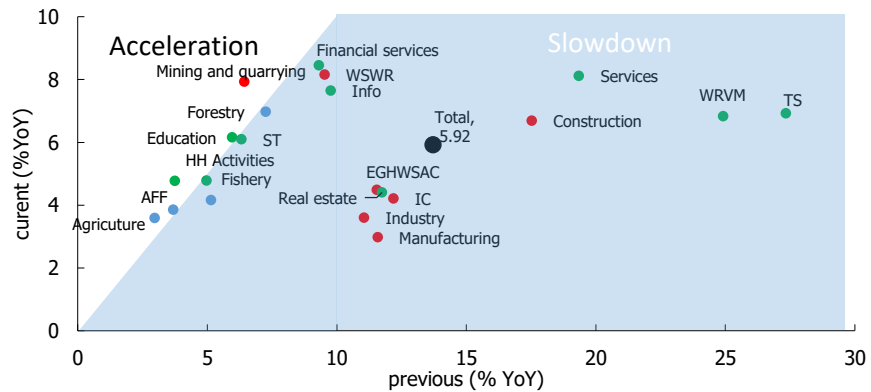
Source: KIS, GSO

Notes: AFF= agriculture, forestry, and fishery; IC = industry and construction; TLS = taxes less subsidies on products.

Regarding the development of second-levelled sectors, the broad deceleration distributed almost equally in the IC sector when the growth rates of manufacturing, EGHWSAC (production & supply of electricity, gas, hot water, steam, and air-conditioning), WSWR (water supply; sewerage, waste management, and remediation activities), and construction reduced by 8.60ppts, 7.06ppts, 1.37ppts, and 10.84ppts, respectively. MQ (Mining and quarrying) exceptionally experienced an acceleration with a growth of 7.93% YoY, 1.50ppts-higher than 3Q22.

In the services sector, the overall slowdown tends to concentrate on a few industries whose performances previously took advantage of the low-base effect. In the extreme development, AC (accommodation & catering services) and AASS (administrative activity and supporting service) grew by 37.62% YoY and 38.32% YoY, 134.68ppts- and 87.18ppts-lower than 3Q22. Less notably, growth rates of WRVM (wholesales, retails, vehicles, and motorcycles repairs) and TS (transportation and storage) reduced by 18.09ppts and 20.42ppts, reaching 6.83% YoY and 6.92% YoY in this quarter, respectively.

Figure 3. Economic growth by sub-sector



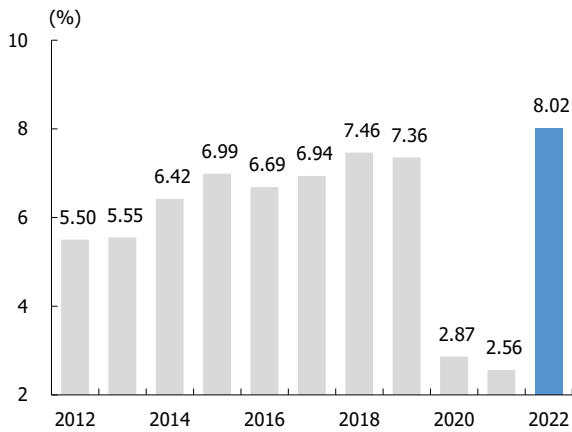
Source: KIS, GSO

Notes: green dot indicates industry in services sector; red dot indicates industry in industry and construction (IC) sector; blue dot indicates industry in agriculture, forestry, and fishery sector.

AFF= agriculture, forestry, and fishery; IC = industry and construction; TLS = taxes less subsidies on products; WRVM: retail sales, wholesales, and sales of vehicles, motorcycles; TS = transportation and storage; Info = information and telecommunication; AC = accommodation and catering; EGHWSAC= production & supply of electricity, gas, hot water, steam and air-conditioning; WRVM= wholesales, retails, vehicles and motorcycles repairs; WSWR= water supply; sewerage, waste management and remediation activities; ST= scientific and technical specialty;

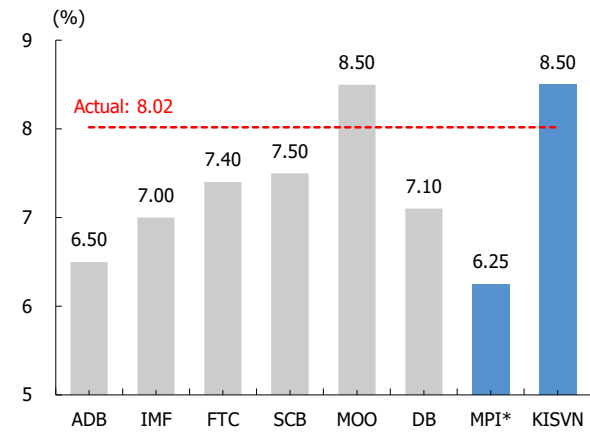
Although the economic slowdown in this quarter was notable and could indicate a challenging start for the next year, the economic growth for 2022 outperformed most predictions from economic agents. More specifically, the actual value of real GDP growth in this quarter beat five, including ADB, IMF, FTC, SCB, and MPI, over eight forecasts in our observation and was just 50bps lower than the most optimistic evaluation from Moody's.

Figure 4. Vietnam's economic growth by year



Source: KIS, GSO

Figure 5. Expectations of Vietnam's economic growth by institution



Source: GSO, Bloomberg, KIS

Notes: ADB= Asian Development Bank; IMF= International Monetary Fund; FTC= Fitch Ratings; SCB= Standard Chartered; MOO= Moody's; DB= Deutsche Bank

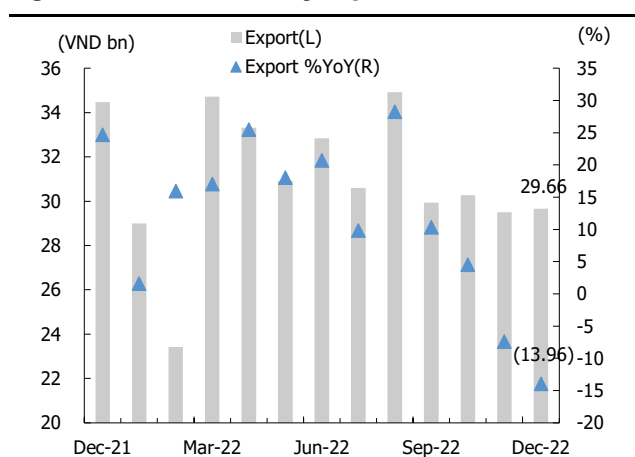
MPI*: the average value of upper and lower from the forecast range of Vietnam's ministry of planning and investing (MPI) was used.

II. Trade deteriorates under the global slowdown

Trade shrunk on the rising fear of global recession

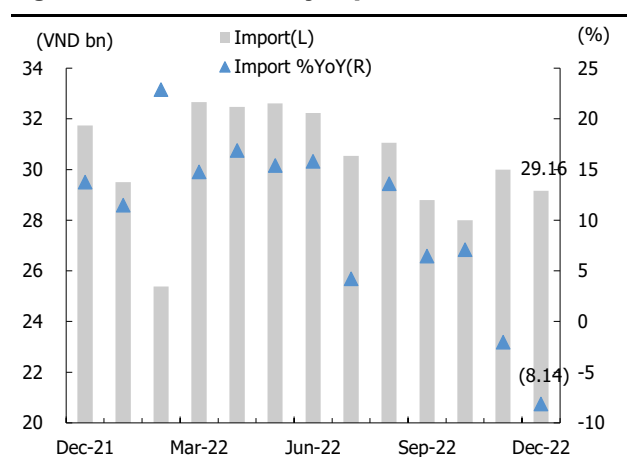
According to GSO, Vietnam trade activities in December were down further into the reduction zone this month when the New Year season in our major trading partners cannot reverse the downturn of new orders for domestic manufacturers. The export value of this period was lower than the previous month and the same period last year. The weak global demand and fewer new orders posted in recent PMI readings were mainly attributable to the trade performance this month. In more detail, export and import declined by 13.96% YoY and 8.14% YoY to USD29.66bn and USD29.16bn, resulting in a trade surplus of USD0.50bn this month.

Figure 6. Vietnam monthly export



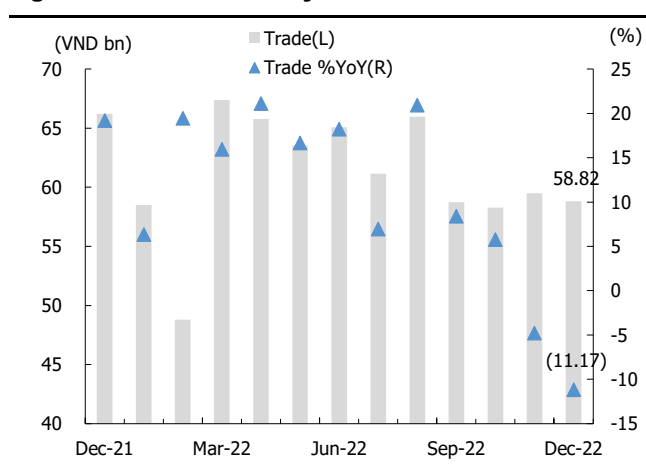
Source: GSO, Vietnam Custom, KIS

Figure 7. Vietnam monthly import



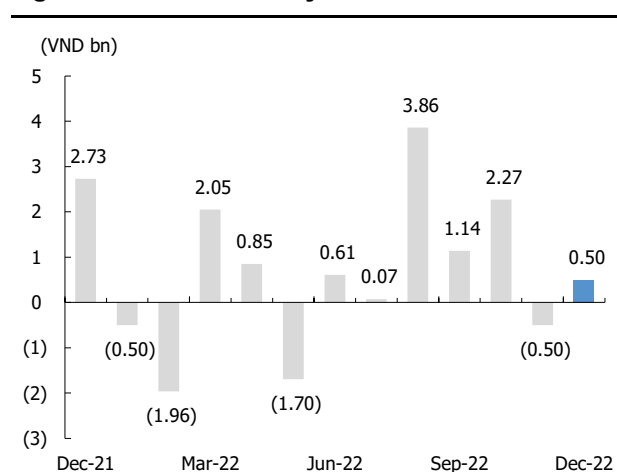
Source: GSO, Vietnam Custom, KIS

Figure 8. Vietnam monthly total trade



Source: GSO, Vietnam Custom, KIS

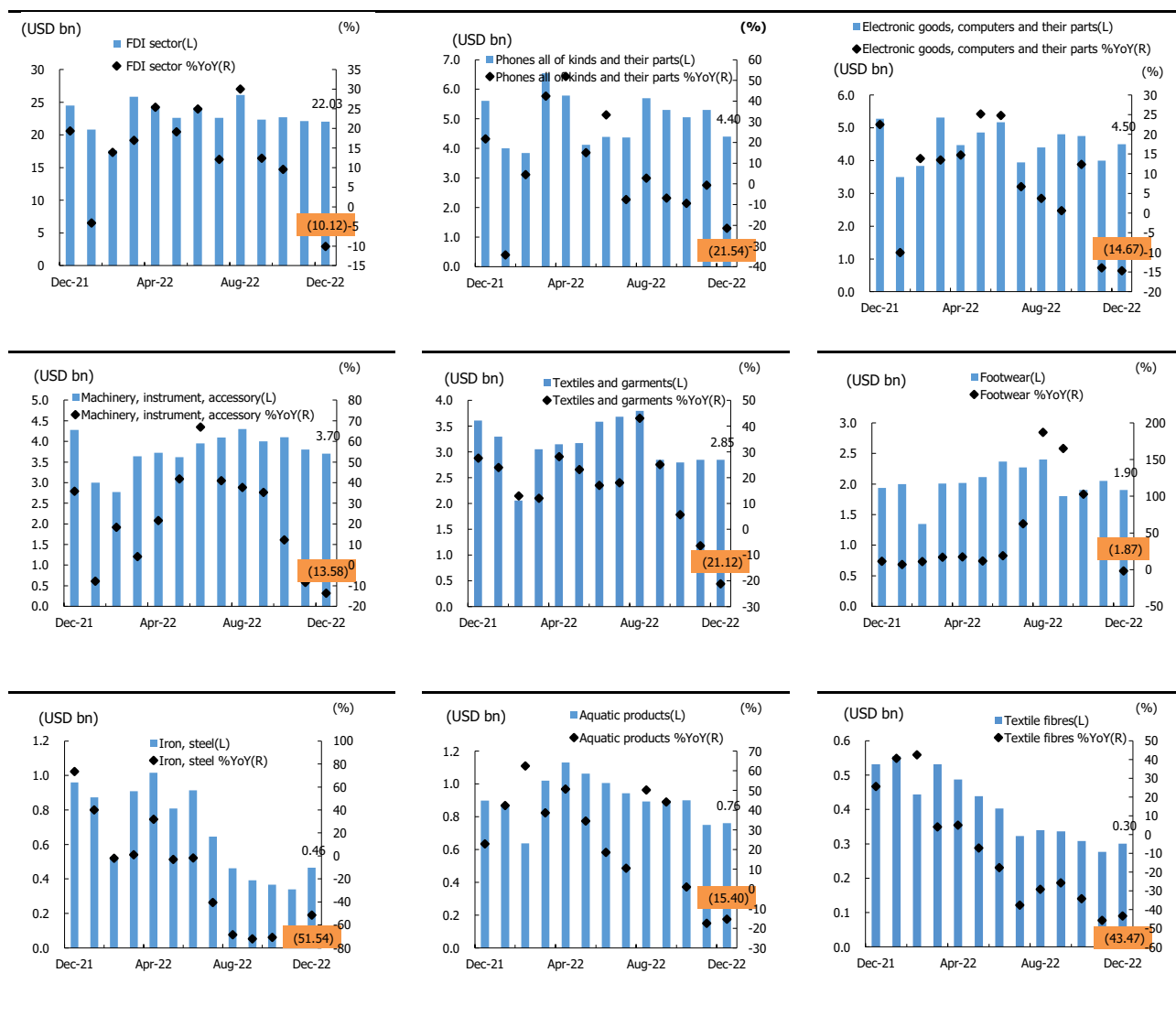
Figure 9. Vietnam monthly trade balance



Source: GSO, Vietnam Custom, KIS

In the export structure, most flagship products show poor performance under the weak global demand, especially goods with a high concentration in the U.S. market. Accordingly, TMPP (phones and parts) recorded one more disappointing month with an export value of USD4.40bn, decreasing by 21.69% YoY. Export performance of phones seems tight with the outlook of Samsung Electronics, the South Korean tech giant, that smartphone consumption would be higher in the last quarter of 2022 due to the seasonality, but the growth has reduced significantly due to the weak demand resulting from tightening monetary policies. Similarly, other major products witnessed a deterioration this month. CEPP (electronic goods, computers, and parts), METI (machinery, instrument, accessory), TG (textiles and garments), and footwear declined by 14.67% YoY, 13.58% YoY, 21.12% YoY, and 1.87%, reaching USD4.50bn, USD3.70bn, USD2.85bn, and USD1.90bn, respectively.

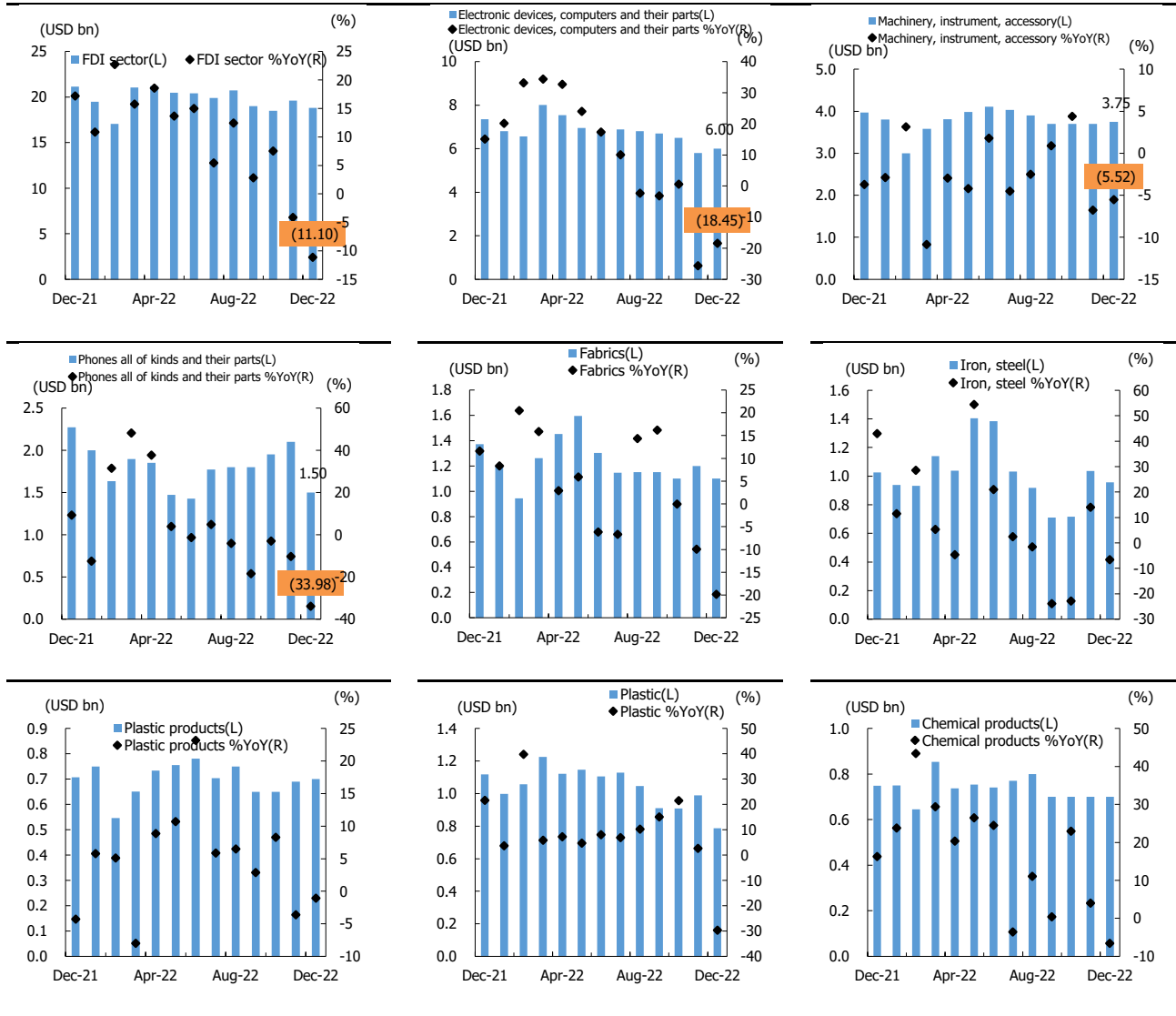
Figure 10. Performances of major export products by month



Source: KIS, GSO

In the import structure, the overall reduction circulated equally across products. Most notably, most flagship products experienced deterioration this month. In detail, CEPP, METI, and TMPP declined by 18.45% YoY, 5.52% YoY, and 33.98% YoY, reaching USD6.00bn, USD3.75bn, and USD1.50bn, respectively.

Figure 11. Performances of major import products by month



Source: KIS, GSO

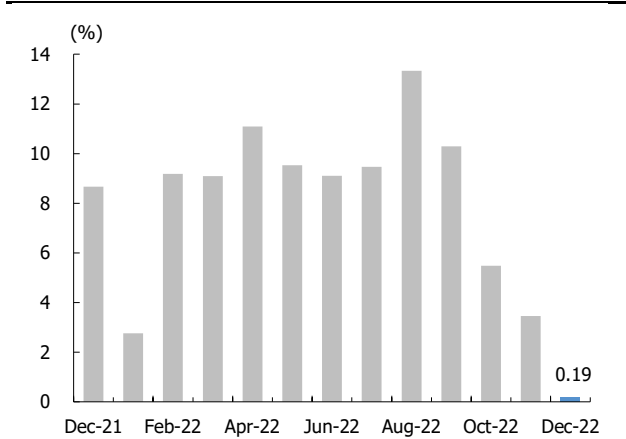
III. Industrial production decelerates notably

Industrial production decelerated significantly

Industrial production (IIP) decelerated notably with a month of no growth when the impact of fewer new orders and the gloomy global demand on domestic contract manufacturers became inevitable. Specifically, IIP rose by 0.19% YoY, 3.27ppts lower than its growth rate in November.

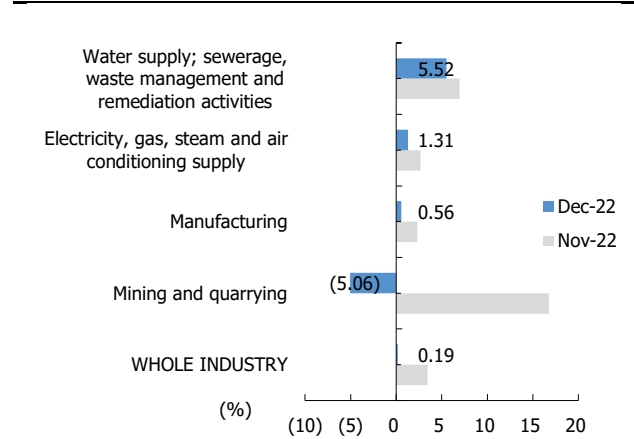
As per sectoral development, mining and quarrying (M&Q), the most prominent business line in the previous month, entered the red territory with a reduction of 5.06% YoY, primarily contributing to the broad deceleration of the whole industry. Less notably, EGSA (the production of electricity, gas, steam, and air conditioning supply), WSSWMR (the production of water supply; sewerage, waste management, and remediation activities), and manufacturing continued decelerating this month by growing by 1.31% YoY, 5.52% YoY, and 0.56% YoY, 1.37ppts-, 1.44ppts-, and 1.76ppts- lower than the previous month.

Figure 12. IIP % YoY by month



Source: GSO, KIS

Figure 13. Movements of 1st-levelled sectors



Source: GSO, KIS

Although the slowdown happened widely in most sub-sectors, business lines with the domestic orientation accelerated impressively. Specifically, the manufacture of textiles and the manufacture of computer, electronic and optical products recorded reductions of 1.82% YoY and 1.93% YoY from increases of 5.33% YoY and 5.94% YoY in the previous month, respectively.

Oppositely, we saw positive signals from the manufacture of beverages and the manufacture of food products, due to the upcoming Tet season, with impressive growth rates of 42.08% YoY and 5.79% YoY.

Table 1. Movements of notable 2nd -levelled sectors

Sector	Classification	Previous (%)	Current (%)
Manufacture of food products		7.07	5.79
Manufacture of beverages		22.13	42.08
Manufacture of textiles	Key	5.33	(1.82)
Manufacture of computer, electronic and optical products		5.94	(1.93)
Manufacture of electrical equipment		(13.88)	(14.50)
Mining of metal ores		0.9	44.04
Manufacture of beverages	Best	22.13	42.08
Manufacture of pharmaceuticals, medicinal chemical and botanical products		27.72	21.26
Manufacture of wood and of products of wood and cork		17.26	12.96
Sewerage and sewer treatment activities		10.43	(15.30)
Manufacture of furniture		(12.12)	(15.28)
Manufacture of electrical equipment	Worst	(13.88)	(14.50)
Manufacture of rubber and plastics products		(16.64)	(10.19)
Mining of coal and lignite		(4.97)	(7.12)

Source: GSO, KIS

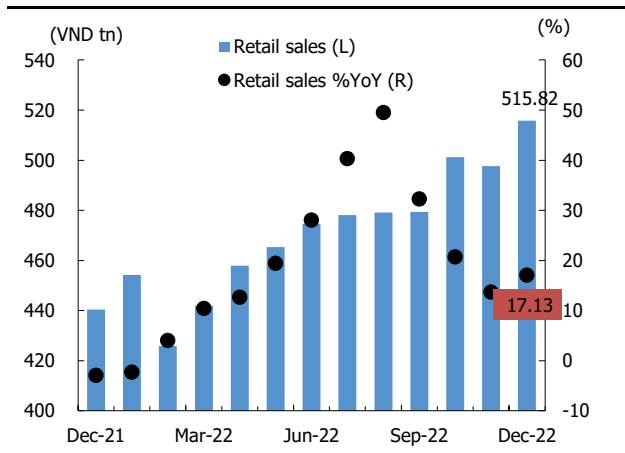
IV. Retail sales remains favorable on the seasonality

The performance of retail sales remained strong

According to GSO's estimate, retail sales in December remained bright due to the current shopping season. However, the low-base effect was fading, resulting in a less impressive growth rate in the year-over-year comparison. Specifically, the YoY December growth rate was 1.06% in 2021 while that of the pre-pandemic level was at 12.03% and 12.72% in 2019 and 2018, respectively. In more detail, revenue from selling goods and services to customers during this period rose by 17.13% YoY, 3.44% higher than in November, and reached VND515.82tn.

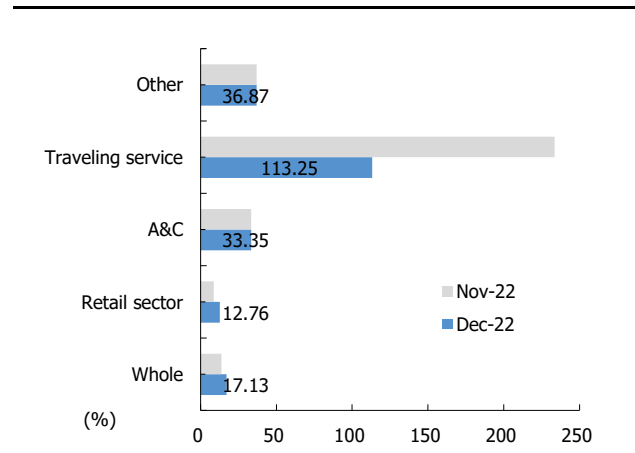
The retail sector is primarily devoted to the slowdown of the whole industry with a modest growth rate of 12.76%, 2.06ppts higher than the previous month. In the excessive movement, revenues from accommodation and catering (A&C) and traveling services witnessed slowdowns, where A&C's growth rate slowed down by one-third compared to last month to 33.35%. Notably, traveling service grew at roughly threefold less than the previous month and stood at 113.25% YoY.

Figure 14. Monthly retail sales



Source: GSO, KIS

Figure 15. Components of retail Sales



Source: GSO, KIS

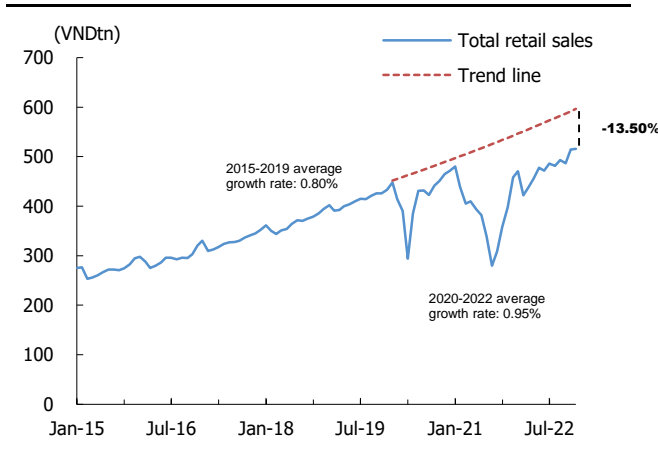
Despite bright performance in A&C and traveling services, their shares in the structure of retail sales retraced as people forgo discretionary services in response to lower earnings reported in our [2023 Outlook](#). The proportion of the retail sector slightly regained to 78.33% this month, while A&C and traveling accounted for 9.87%. The government's initiatives to attract international visitors and the fast recovery of A&C and traveling services could reestablish the retail sales structure to its pre-pandemic shape, where the retail sector, A&C, and traveling services accounted for approximately 75%, 15%, and 1%, respectively.

Total retail sales have room to rebound back to the pre-pandemic level

As of December 2022, total retail sales of consumer goods in Vietnam were still 13.50% below the pre-pandemic trend level (calculated using the average MoM growth rate during 2015-19 with the assumption that the growth rate over 2020-22 equals the average rate over 2015-19).

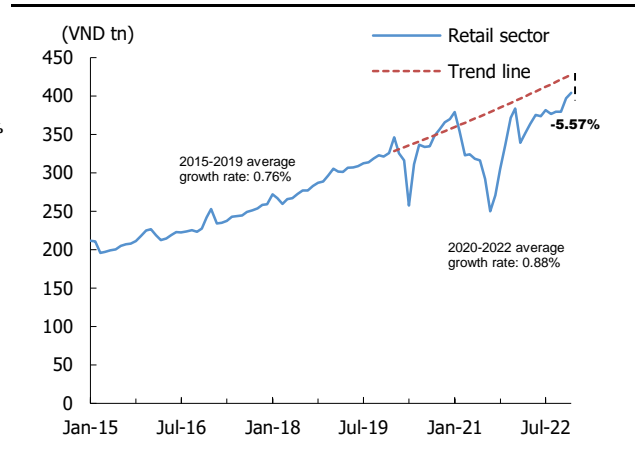
Since the reopening in Oct 2021, total retail sales started recovering with a faster average MoM growth of 2.81% compared to 0.79% MoM in the pre-pandemic level 2015-19 due to the low base effect and pent-up demand. Currently, consumers tend to reduce discretionary spending on consumer goods as the grey gamut covers the economy, but retail sales still have nearly 13.50% room to rebound back to the pre-pandemic growth level. Despite strong recovery after normalization, A&C and traveling services are still far below the pre-pandemic trend line level by -36.12% and -65.55%, respectively. In contrast, the retail sector shrank, recovered less dramatically, and is 5.57% below the trend line.

Figure 16. Total retail sales: Actual vs Pre-pandemic trend



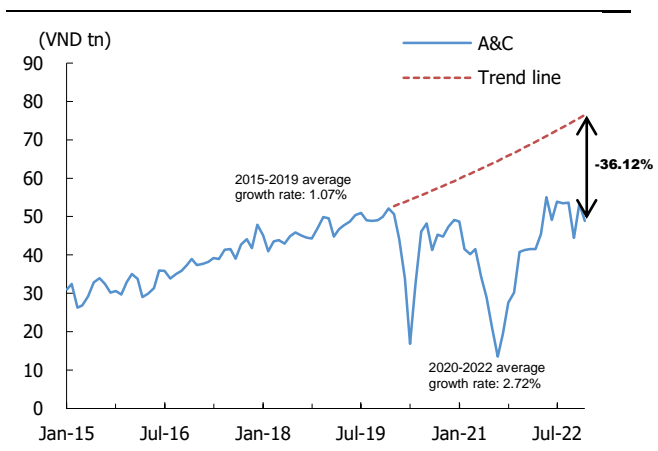
Source: GSO, KIS

Figure 17. Retail sectors: Actual vs Pre-pandemic trend



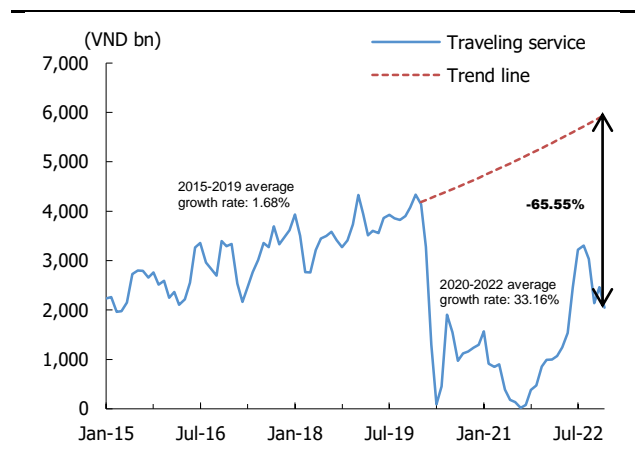
Source: GSO, KIS

Figure 18. Accommodation and catering: Actual vs Pre-pandemic trend



Source: GSO, KIS

Figure 19. Traveling services: Actual vs Pre-pandemic trend



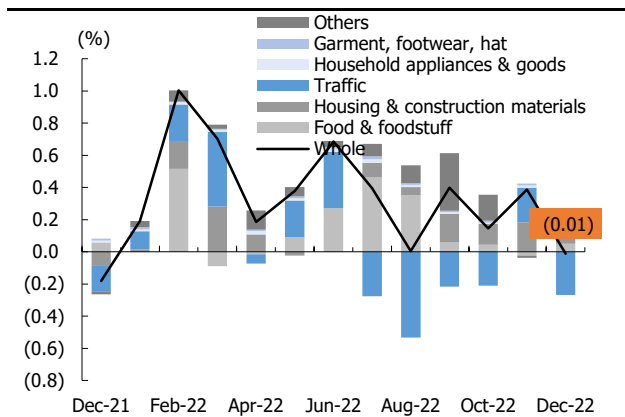
Source: GSO, KIS

V. Core CPI increases persistently

Lower Traffics mainly decelerates CPI

According to GSO's release, traffics index played an important role in decelerating CPI this month. Specifically, CPI in December 2022 declined by 0.01% MoM and increased accordingly by 4.55% compared to the same period last year. Regarding sectoral contributions, traffics, postal services and telecommunication decreased by 2.78% MoM, and 0.04% MoM contributed 27 basis points (bps) and 1bps to CPI's decrease, respectively. In the opposite direction, nine over eleven items in CPI's basket all witnessed an increase. Accordingly, Food and foodstuffs (FFs), housing and construction materials (HCM), beverage and cigarette (BAC), and education all increased by 0.15%, 0.66%, 0.44%, and 0.32% compared with last month respectively.

Figure 20. Monthly CPI change and its contributor



Source: GSO, KIS

Table 2. Monthly CPI change by item

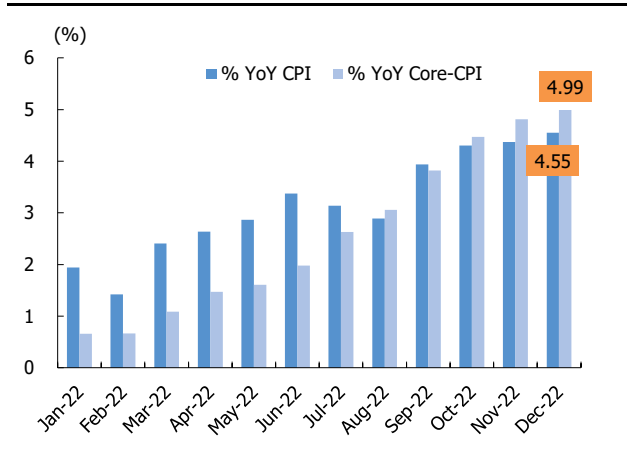
Item	Weight (%)	% MoM	% YoY
Food and foodstuff	33.56	0.15	5.21
Beverage and cigarette	2.73	0.44	3.79
Garment, Footwear, hat	5.70	0.41	2.43
Housing and construction materials	18.82	0.66	7.14
Household appliances and goods	6.74	0.22	2.66
Medicine and health care	5.39	0.08	0.59
Traffic	9.67	-2.78	-0.16
Postal services & Telecommunication	3.14	-0.04	-0.25
Education	6.17	0.32	11.80
Culture, entertainment and tourism	4.55	0.09	5.02
Other goods and services	3.53	0.23	3.17
Consumer Price Index	100.00	-0.01	4.55

Source: GSO, KIS

Taking CPI's contributors at the product-level into consideration, the downward pressure from traffics index resulted from three adjustments in domestic petrol price in December. Specifically, after 3 adjustments in December, the price of gasoline has declined by around 7.29% compared to the previous month.

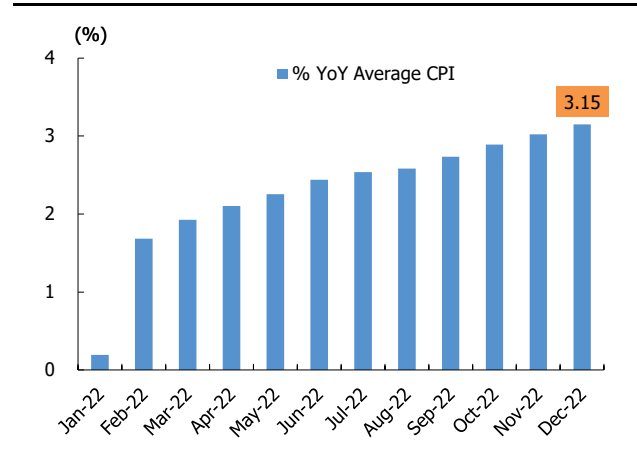
On the contrary, food increased by 0.48% due to stable export rice prices at a high level along with increased consumer demand at the end of the year, causing a slight increase in rice prices, contributing to the rise of (FFs). Besides, the increase in gas prices acted as a catalyst for the rise of HCM. In detail, the world gas price jumped from USD610 per ton to USD650 per ton which pushed the domestic gas price to increase VND14,000/12kg cylinder.

Figure 21. Yearly CPI and Core-CPI



Source: GSO, KIS

Figure 22. Average yearly CPI



Source: GSO, KIS

Taking core inflation into consideration, it can be seen that core-CPI grew persistently at 0.33%MoM and 4.99%YoY. Besides, average core inflation increased by 2.59% compared to 2021, lower than the overall average CPI (up by 3.15%), which reflects fluctuations in consumer prices mainly due to food, gasoline, and oil and gas prices.

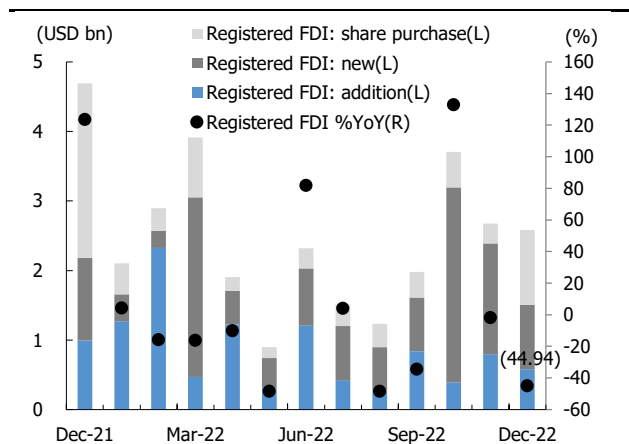
Regarding the yearly average change, CPI rose by 3.15% YoY this month which meets the government's target of 4.00% proposed in Resolution 01/NQ-CP on the social-economic development plan and tasks in 2022.

VI. FDI registration declines

Registered FDI falls

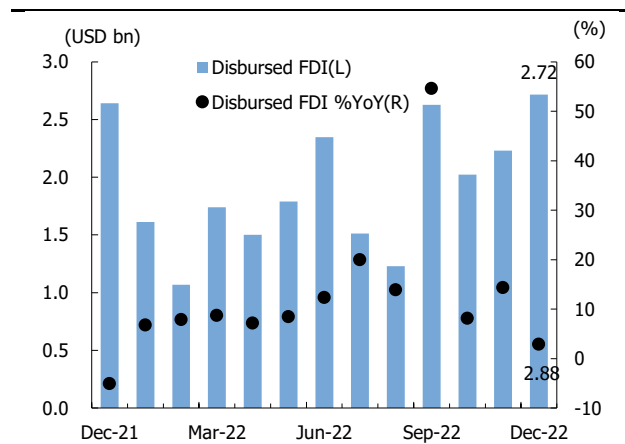
According to the latest update from the Ministry of Planning and Investment (MOIT), a notable decline was seen in December's registered FDI by 3.41% compared with previous month and by 44.94% YoY, respectively. To be more specific, the registration value from foreign investors in December was USD2.58bn, including USD0.93bn of new, USD0.58bn of the addition, and USD1.08bn of the share purchase. Conversely, the total disbursed FDI in December showed a positive sign. Specifically, the disbursement of foreign capital this month was USD2.72bn, increasing significantly by 21.79% MoM and inching up by 2.88% compared with the same period last year.

Figure 23. Monthly registered FDI



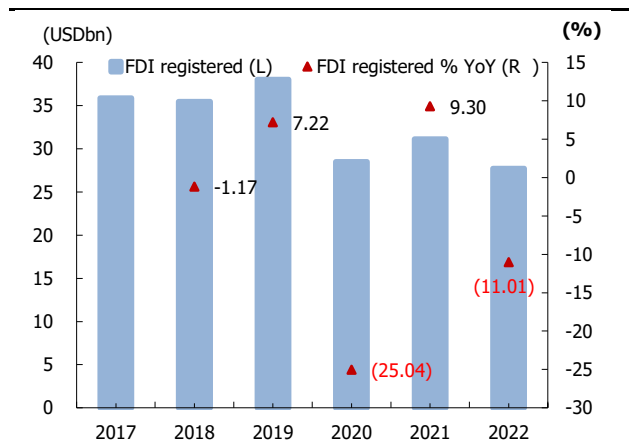
Source: MPI, KIS

Figure 24. Monthly disbursed FDI



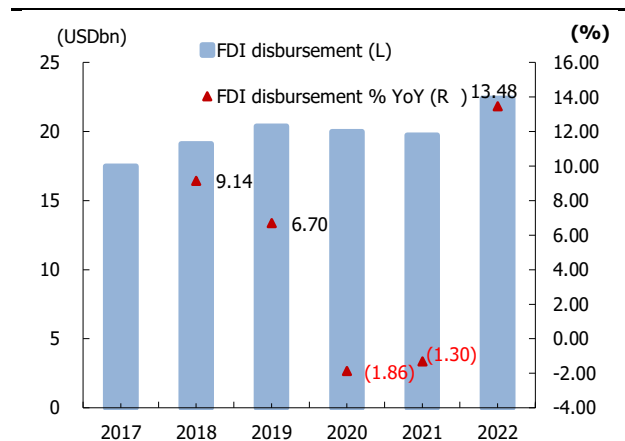
Source: MPI, KIS

Figure 25. Yearly registered FDI



Source: MPI, KIS

Figure 26. Yearly disbursed FDI

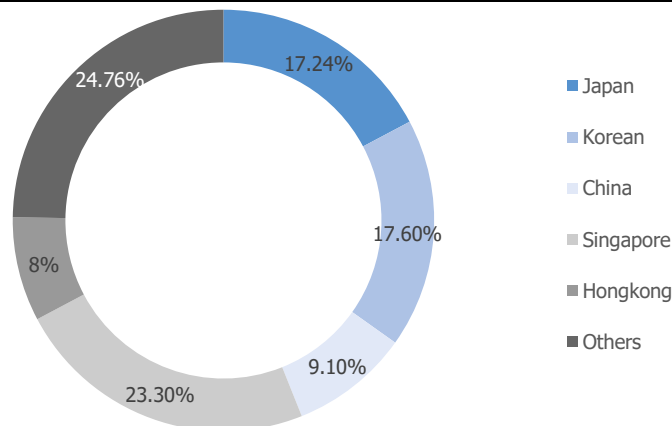


Source: MPI, KIS

For the whole year, the total registered FDI for 2022 reached around USD27.72bn, 11.01% lower compared with 2021. On the other hand, disbursed FDI posted at USD22.40bn, gaining 13.48% compared with last year. However, although a decline was seen in the total FDI in Vietnam this year, the FDI in the real estate sector witnessed a surge. Specifically, foreign investment in the real estate sector in 2022 has increased by USD1.85bn, equivalent to an increase of more than 70% compared to the whole year of 2021.

We believe that the rise in FDI in the real estate sector shows that foreign investors still put their faith in the development potential of Vietnam. Besides, sectors such as industrial and logistics real estate, development land, hotels, and offices are being sought after by foreign investors. Even though the FDI inflows may be affected by the bleak global economic outlook for 2023, we expect that the FDI will still increase slightly because Vietnam is still considered a country with many competitive advantages in the production shift trend out of China.

Figure 27. FDI by countries



Source: KIS, GSO

By country, there are 108 countries and territories investing in Vietnam in 11 months of 2022. Singapore continues to rank first in a total investment of more than USD 6.46bn, accounting for 23.30% of total investment capital in Vietnam, decreased by 39.7% compared to the same period in 2021. Korea ranked second with over USD 4.88bn, accounting for 17.60% of total registered FDI. Japan ranked third with a total registered investment capital of over USD 4.78bn, accounting for 17.24% of total investment capital, followed by China, Hong Kong, and Taiwan.

Table 3. Notable projects of 2022

Project	Origin country	12-month of 2022 registration (USD bn)	Accumulated registration (USD bn)	Location
Lego	Denmark		1.30	Binh Duong
Thermal Project O Mon II	Japan		1.33	Can Tho
VSIP Bac Ninh	Singapore	0.94	1.70	Bac Ninh
Samsung Electro-mechanism	Korea	0.92	2.27	Thai Nguyen
GoerTek	China	0.40	0.50	Nghe An
LG Display VietNam	Korea	1.40	4.65	Hai Phong

Source: GSO, MPI, KIS

Macro scorecard

	22-Aug	22-Sep	22-Oct	22-Nov	22-Dec	1Q22	2Q22	3Q22	4Q22	2019	2020	2021	2022
Real GDP growth (%)						5.03	7.72	13.67	5.92	7.03	2.91	2.58	8.02
Registered FDI (USD bn)	1.23	1.92	2.05	2.67	2.58	8.91	5.12	4.67	8.96	38.02	28.53	31.15	27.72
GDP per capita (USD)										3,398	3,521	3,725	
Unemployment rate (%)										2.25	2.48	3.22	
Export (USD bn)	33.38	29.94	30.27	29.50	29.66	86.01	96.83	96.48	89.50	263.6	282.7	335.7	371.85
Import (USD bn)	30.96	28.80	28.00	30.00	29.16	87.45	97.58	90.71	85.07	254.4	263	331.1	360.65
Export growth (%)	22.14	10.35	4.54	(7.40)	(13.96)	13.43	21.02	17.22	(6.07)	8.16	7.02	18.74	10.61
Import growth (%)	12.42	6.45	7.08	(2.04)	(8.14)	15.17	15.72	8.12	(3.90)	7.41	3.81	25.9	8.35
Inflation (%)	2.89	3.94	4.30	4.37	4.55	1.92	2.96	3.32	4.41	2.79	3.24	1.84	3.15
USD/VND	23,417	23,712	24,839	24,800	23,658	22,837	23,139	23,712	23,658	23,173	23,126	22,790	23,650
Credit growth (%)	9.62	10.47	11.50	11.50	12.87	4.13	8.51	10.47	12.87	13.75	12.17	12.97	12.87
10Y gov't bond (%)	3.37	4.39	4.95	4.91	5.08	2.40	3.38	4.39	5.08	3.37	2.01	2.11	5.08

Source: GSO, Bloomberg, FIA, IMF

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