CLMV Outlook

CLMV Economic Outlook 2023

CLMV economies will see a modest recovery thanks to domestic demand and tourism despite headwinds to exports from a global economic slowdown. Key risks ahead come from fragile fiscal and external stability as well as escalating global geopolitical tension.

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Executive Summary: CLMV Economy 2023

Cambodia

Cambodia's economy will likely witness a stronger growth of 5.5% in 2023. A steady rebound in tourism (accounted for 18.2% of the pre-pandemic GDP) would be a major impetus that supports the labor market and domestic demand recovery. Inflation is expected to wind down alongside global commodity prices. Nonetheless, the global economic slowdown would hold back exports and foreign direct investment (FDI), although China's reopening might help cushion the impacts. Meanwhile, swelling private debt amid tighter financial conditions is a risk that warrants monitoring.

Laos

Laos' economy will expand gradually by 3% in 2023, buoyed by a rebound in domestic demand, which follows the pandemic ebbing and the reopening of China—Laos' major trade partner and investor. The China-Laos high-speed railway will further cement economic partnerships between both nations. Still, Laos' economic growth would remain somber due to rampant inflation—resulting from the weakening LAK—which hampered households' purchasing power. This will also keep the external public debt persistently high, considering low foreign reserve buffers.

Myanmar

Myanmar's economic growth is expected to remain low at 3% in FY2022/23, but economic activities should gradually resume as political tension somewhat subside. Nonetheless, the rebound will be modest, owing to unsolved disruption in essential public services such as electricity, while the global economic slowdown would rattle the manufacturing sector and exports. The ongoing political unrest with slow improvement might prolong Western sanctions and keep Myanmar's growth capacity sunken in the medium term. Meanwhile, the upcoming election in 2023 would not significantly buttress the business sentiment.

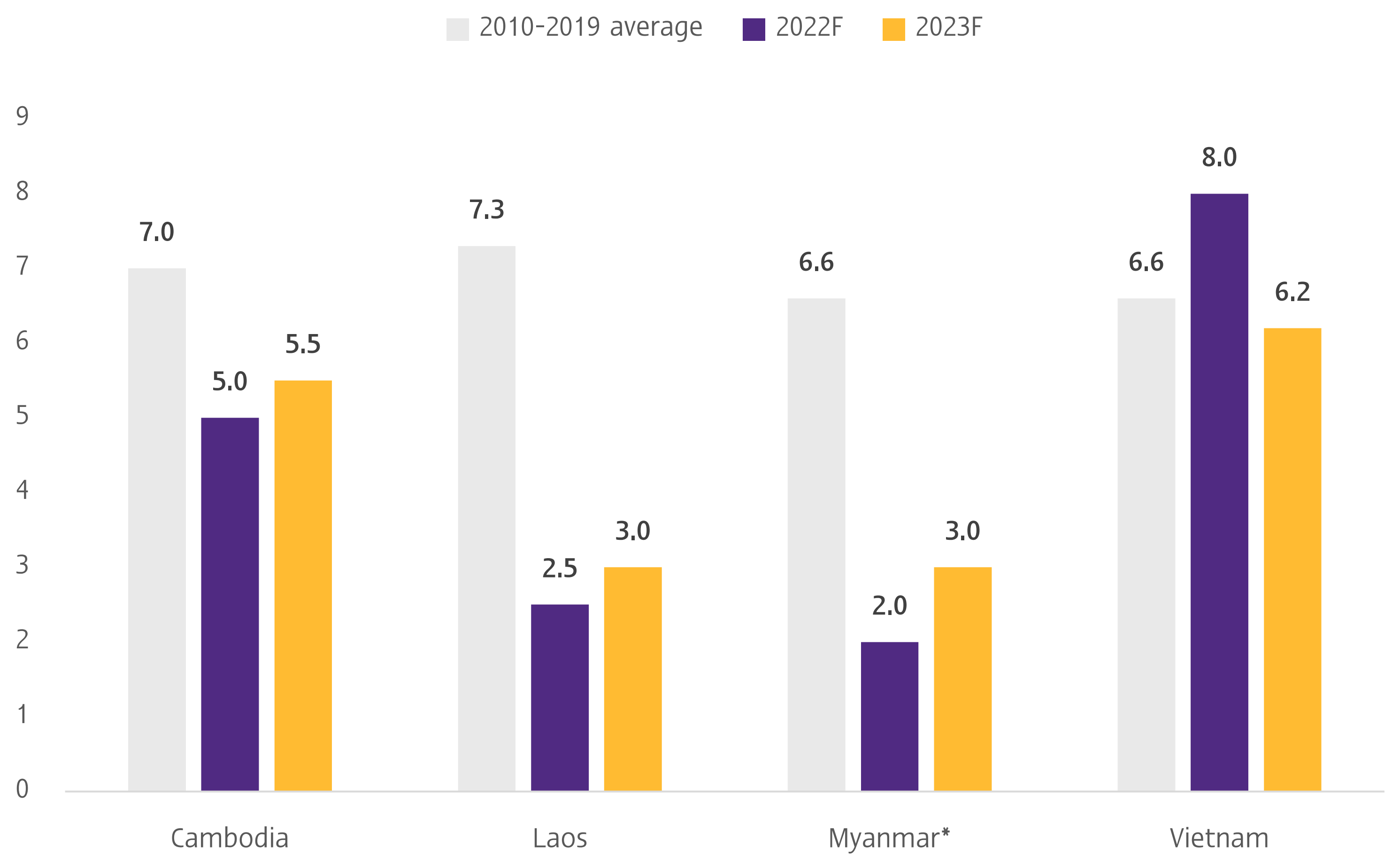
Vietnam

Vietnam's economy will record a slower growth at 6.2% in 2023, after a profound reading of 8% in 2022. Major headwinds come from the global economic deceleration, which hampers exports and FDI—Vietnam's crucial economic drivers—thus repressing employment and the manufacturing sector. A tightening monetary policy would also weaken domestic demand, as tight financial conditions could squeeze firms' liquidity. In the medium term, Vietnam will benefit from a manufacturing base relocation out of China since multinational companies are looking to avoid ongoing geopolitical tensions.

CLMV economic recovery will likely continue in 2023, driven by domestic demand and the tourism sector. Still, exports deceleration might pressure growth—particularly in Vietnam.

CLMV's economic growth forecasts 2022-2023

Unit: %YOY



Positive factors

- **Domestic demand recovery,** which followed the easing of COVID-19 restrictions and labor market improvement.
- **Number of tourist arrivals** ticked up after the country reopened.
- **China's reopening** should bolster FDI inflows.

Negative factors

- **Global economic slowdown** would weigh on exports.
- **Tighter domestic monetary policy** to quell inflation and support local currencies could deter the credit market and liquidity.
- **Country-specific factors,** such as political unrest in Myanmar.

Risk factors

- **Slower-than-expected inflation cooldown** due to elevated commodity prices and weakening local currencies.
- **Risk of debt default** in countries with high public debt.
- **Escalating global geopolitical tension** and domestic political conflict.

Note: For Myanmar, 2023F refers to FY2022/2023.

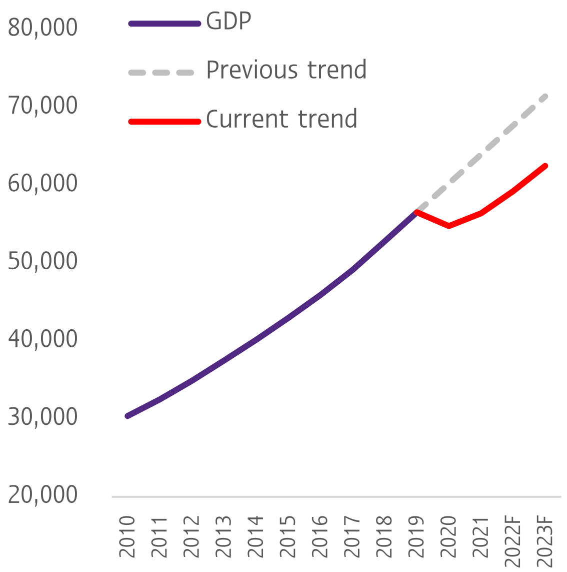
Source: SCB EIC analysis based on data from CLMV statistics bureaus and IMF.

CLMV economic recovery would remain modest and below growth potentials, owing to scarring effects from the COVID-19 crisis, fiscal and external fragility, and country-specific risks.

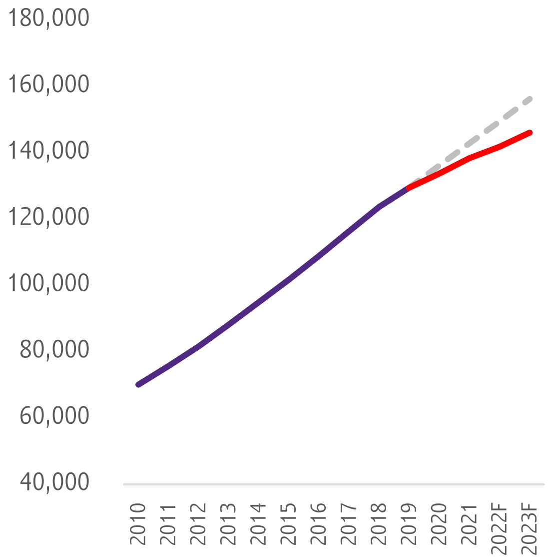
Forecasts of CLMV economic growth potentials, comparing to 2010-2019 growth trend

Unit: billion (local currencies)

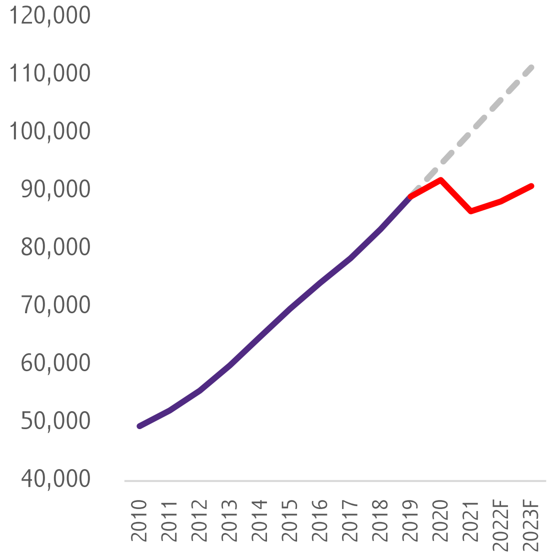
Cambodia



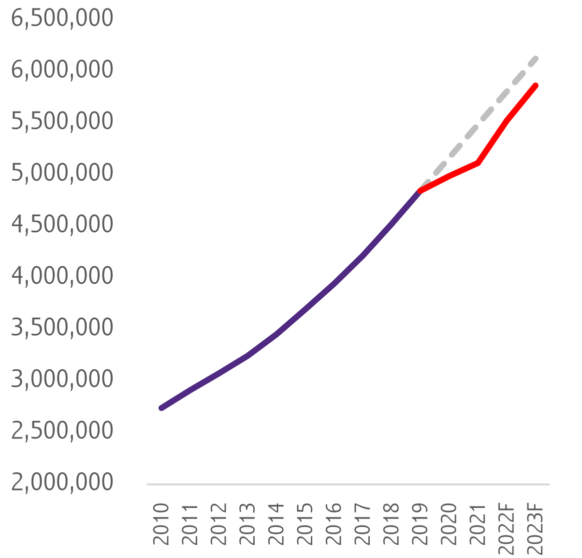
Laos



Myanmar*



Vietnam



Cambodia's Economy: sluggish growth due to high reliance on tourism and FDI (14% and 12% of GDP, respectively)—both likely to resume the pre-pandemic pace gradually.

Laos' Economy: impaired by fragile fiscal and external stability, which led to a sharp depreciation of LAK, and soaring inflation.

Myanmar's Economy: faced with high political uncertainties after the 2021 coup, which put nationwide economic activities on a halt and invoked sanctions from Western countries.

Vietnam's Economy: observed the strongest rebound among CLMV peers, but there remain global recession risks that could hinder exports and FDI.

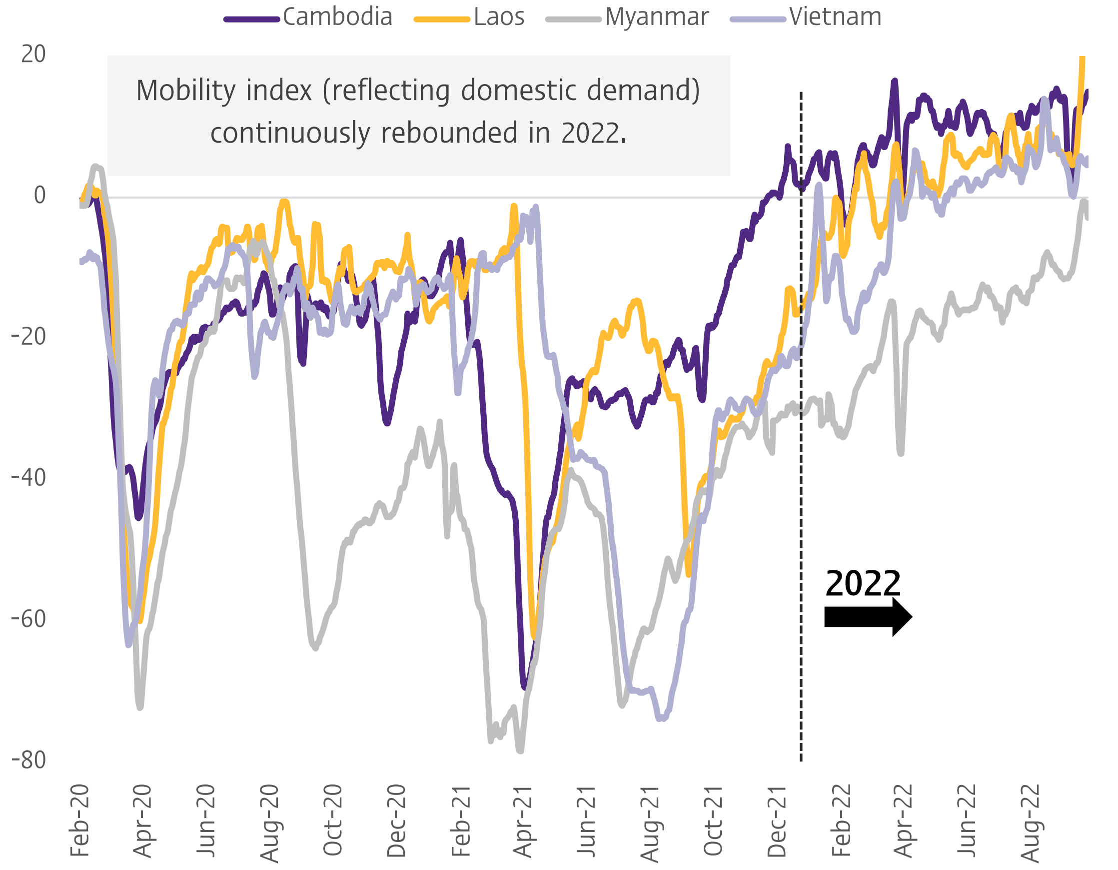
Note: *Myanmar's 2021 GDP is an official figure reported by the Central Statistical Organization.

Source: SCB EIC analysis based on data from IMF.

Domestic demand and tourist arrivals regained traction after the country's reopening, backed by pent-up demand, particularly from ASEAN tourists. Both should become big factors in CLMV economic growth this year.

Google mobility data (retail and recreation)

Unit: % change from base level (Jan-Feb 2020)



International tourist arrivals to CLMV (excl. Laos)*

Unit: person

GDP contribution of domestic and international tourism, 2019

18.2%	5.0%	3.9%	9.8%

Cambodia and Vietnam are poised to profit the most from the tourism recovery.

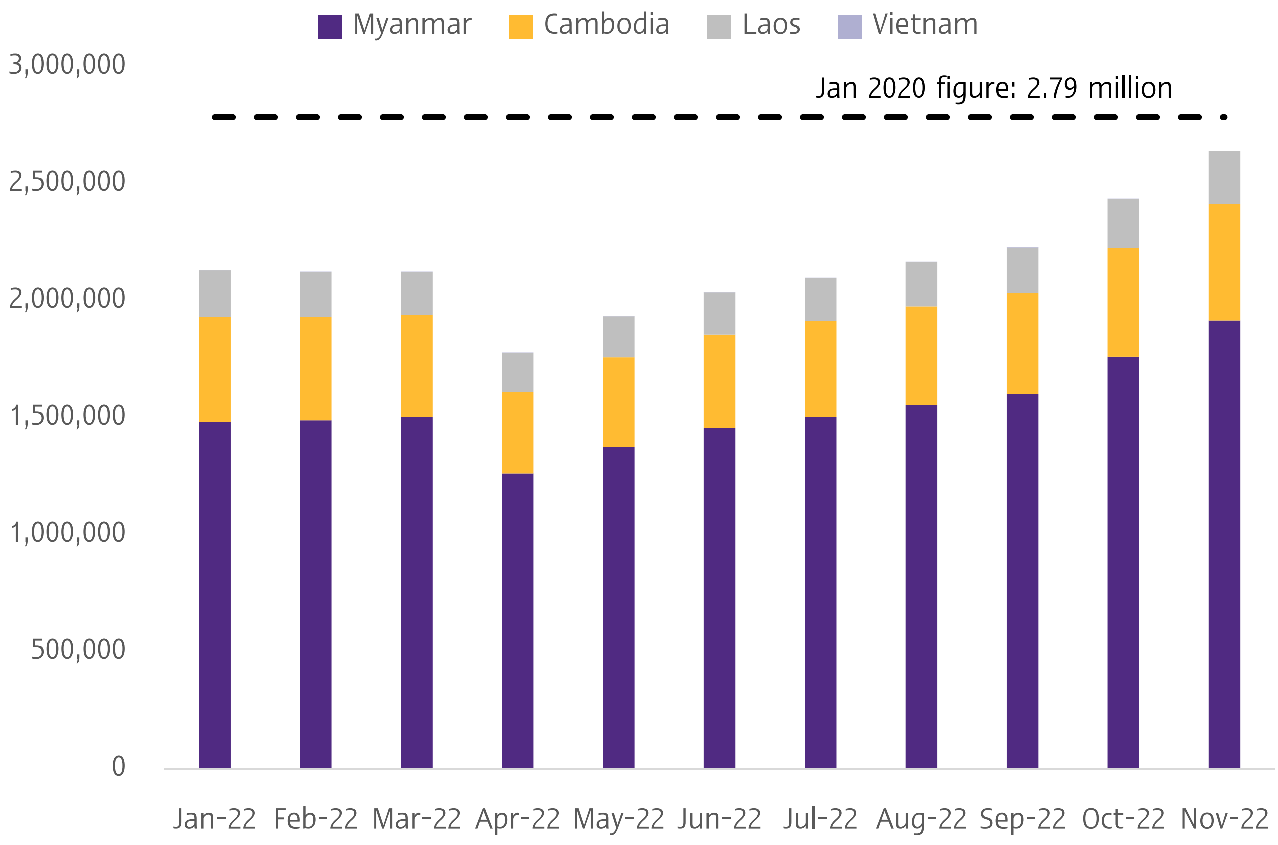
Note: *Laos did not report tourist arrivals since 2020.

Source: SCB EIC analysis based on data from Google and CEIC.

Employment of CLMV migrant workers in Thailand is improving, albeit remaining below the pre-pandemic level, and thus supported CLMV domestic consumption via higher remittances.

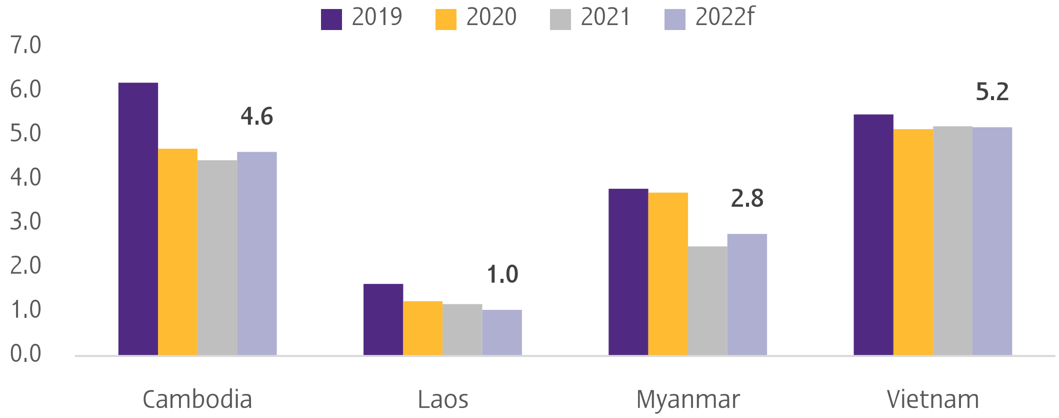
Employment of CLMV migrant workers in Thailand

Unit: person



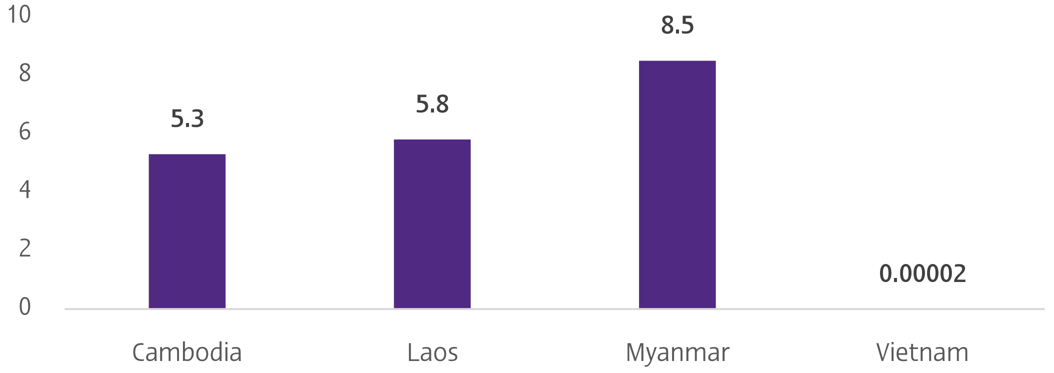
Value of inward remittances

Unit: % of GDP



Share of CLMV workers in Thailand (as of November 2022)

Unit: % of origin country's labor force in 2021

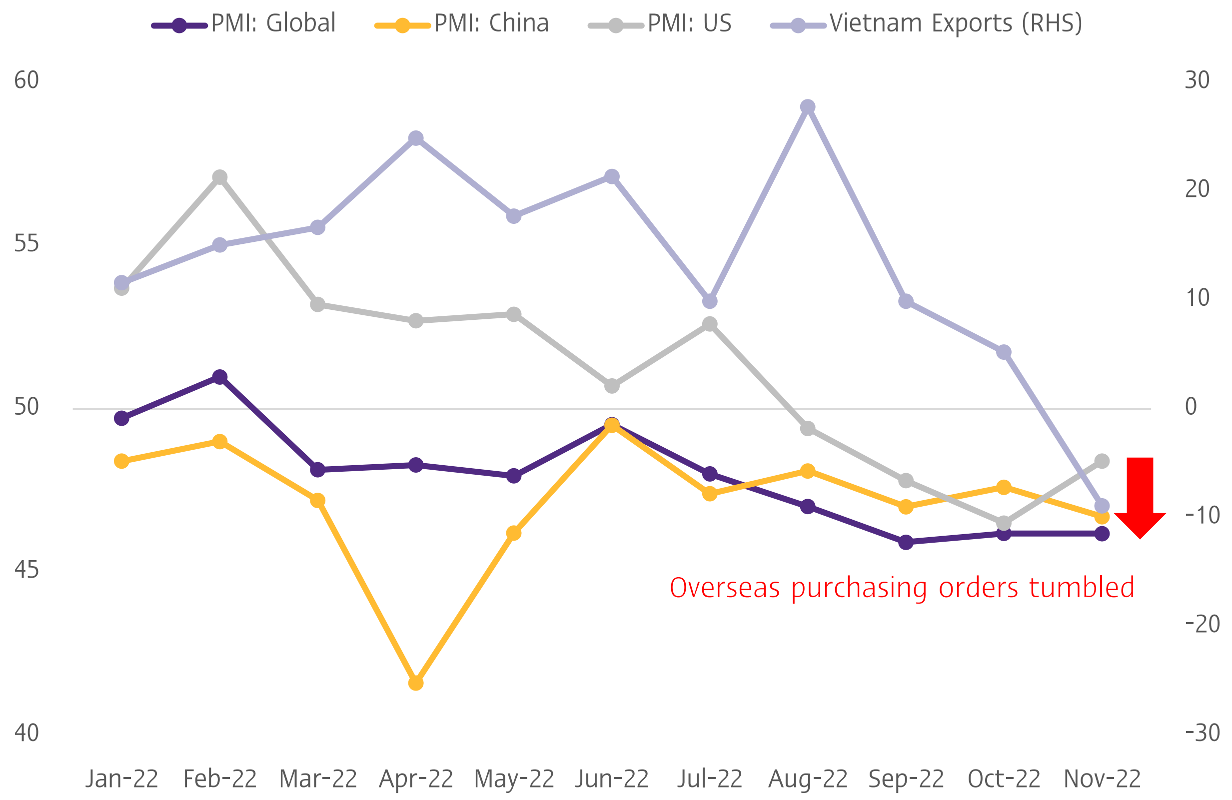


Source: SCB EIC analysis based on data from Foreign Workers Administration Office, World Bank/KNOMAD, and CEIC.

Global economic slowdown would repress CLMV exports and FDI, yet China's reopening in 2023 might help soften the impacts.

PMI: new exports order in manufacturing and Vietnam's exports

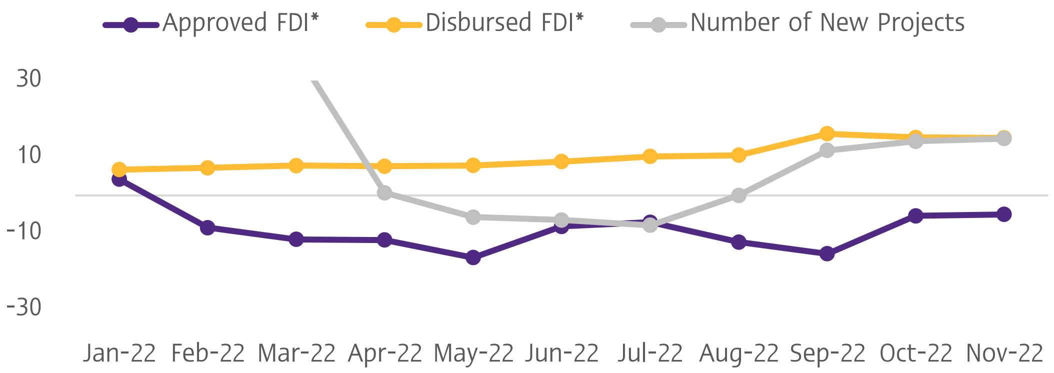
Unit: index (<50 indicates lower overseas purchasing orders) Unit: %YOY



PMI indicated a continuous contraction in global demand for exports. Meanwhile, Vietnam's exports (which is deeply linked to the global supply chain) shrank for the first time in 14 months.

FDI inflows to Vietnam

Unit: %YOY (Year-To-Date)

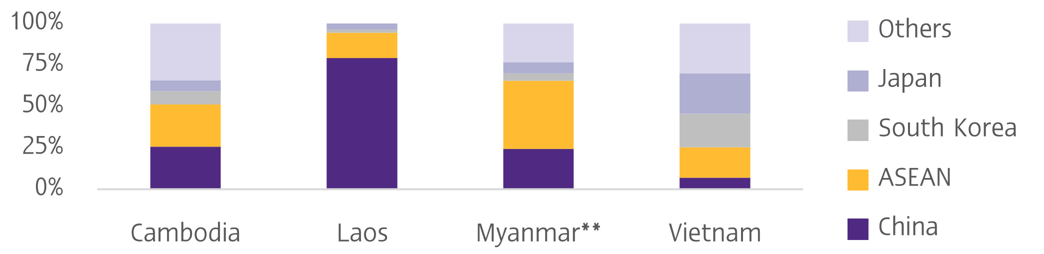


Overall FDI inflows to Vietnam expanded in 2022, but approved FDI value plummeted—signaling lower disbursed FDI in 2023.

Source of CLMV FDI inflows (2018)

Unit: % of total FDI

China is a major investor in the CLMV region.

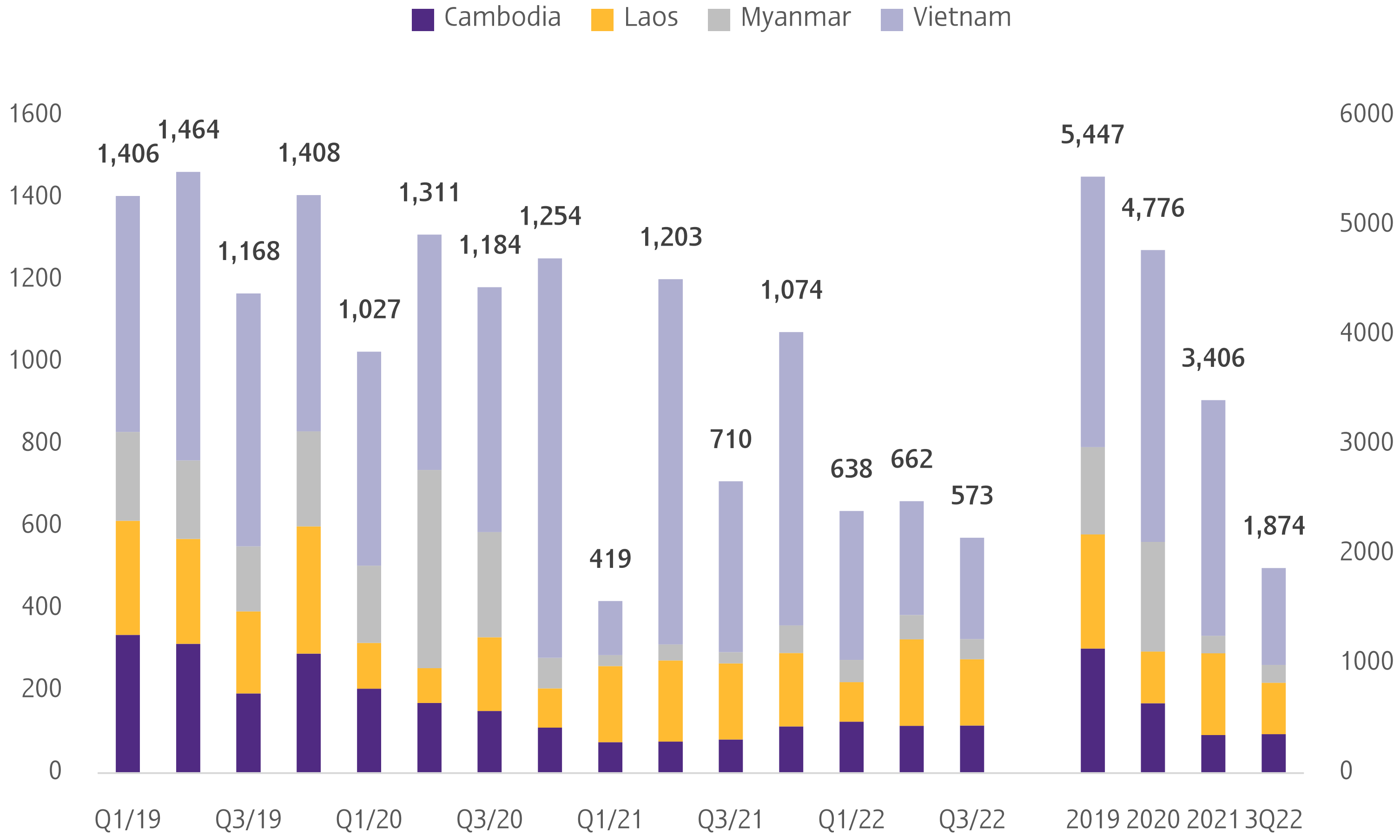


Note: *Approved FDI is the total registered capital; Disbursed FDI is the implementation capital. / **Myanmar's data was approved FDI in FY2017/2018.
Source: SCB EIC analysis based on data from JP Morgan, IHS Markit, CEIC, ASEAN Secretariat, and DICA.

TDI to CLMV economies will likely see slow growth. A stronger rebound in CLMV economies might help provide support, but there remain headwinds from country-specific risks and a global economic slowdown.

Thailand direct investment (TDI) to CLMV countries

Unit: USD million



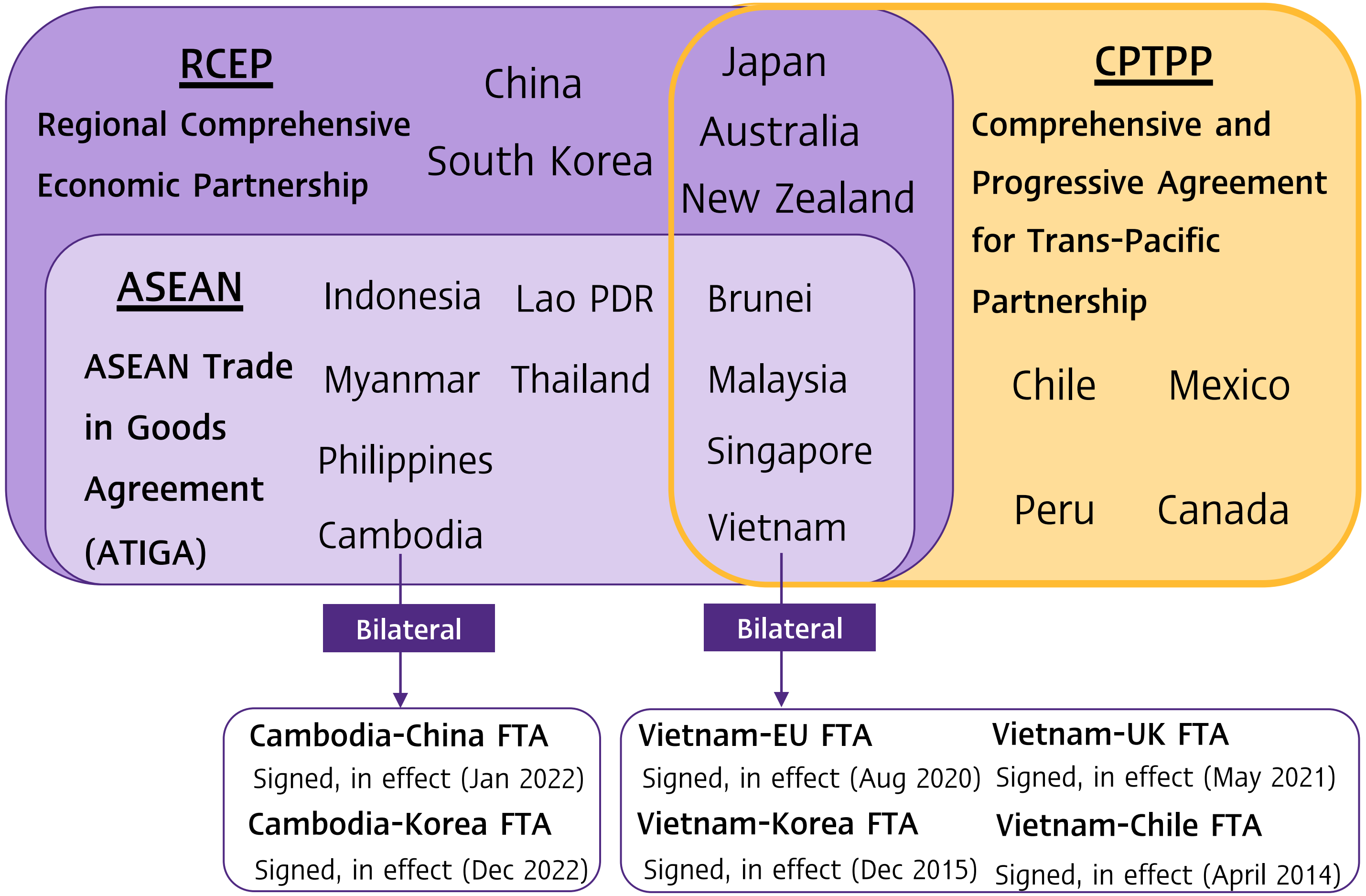
Outlook of TDI to CLMV

- **TDI to CLMV was subdued in 2022,** dragged by regional economic uncertainties, costlier financing due to inflation spikes and weakening THB, an overall regional economy that has yet to regain its full momentum, and country-specific challenges.
- **TDI rebound will remain weak in 2023,** given downward pressures from high inflation and global economic slowdown. Meanwhile, persistent country-specific risks include Myanmar's political unrest and Laos' fiscal and external fragility.
- **CLMV region would still attract Thai investors in the medium term,** thanks to rapid economic growth and a large pool of labor force. Appealing investment incentives also offer business opportunities for Thai investors.

Source: SCB EIC analysis based on data from Bank of Thailand.

In the medium term, CLMV trade and investment should benefit from broad FTA networks —bilateral and multilateral—through lower trade barriers and tariffs. Vietnam will enjoy the highest gain among CLMV peers.

Regional free trade agreements

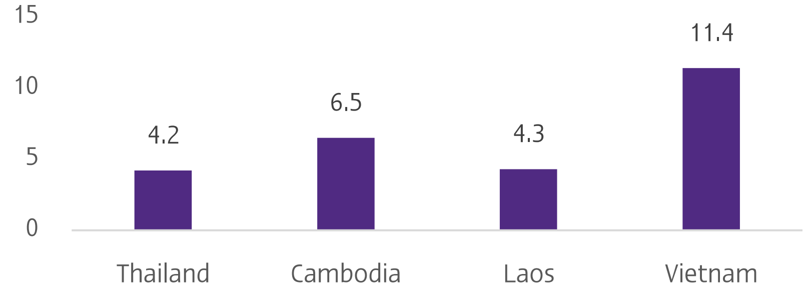


Benefits of the FTAs

- Lower trade barriers—both tariffs and non-tariff measures—and better alignment concerning the Rule of Origin which helps reduce trade costs and bolster international trade
- Higher production efficiency, thanks to lower import prices of manufacturing materials
- Easing of foreign investment restrictions will foster FDI as well as technology and skill transfers.

Expected RCEP benefits to CLMV exports in the long term*

Unit: % increase from the no-RCEP scenario (Year 2035)



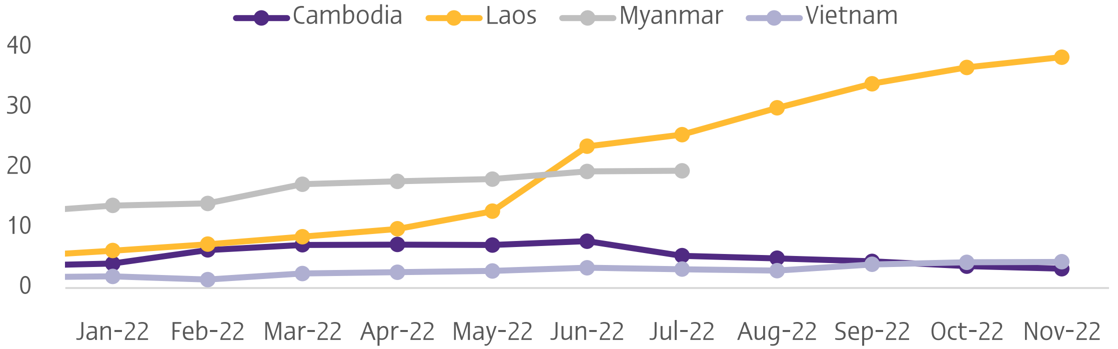
Note: *World Bank's research outcome.

Source: SCB EIC analysis based on data from World Bank, Nikkei Asia, and Asian Development Bank.

Inflation looks to cool down in 2023, albeit slowly, given elevated global oil prices, downward pressures on local currencies, and a rebound in domestic demand.

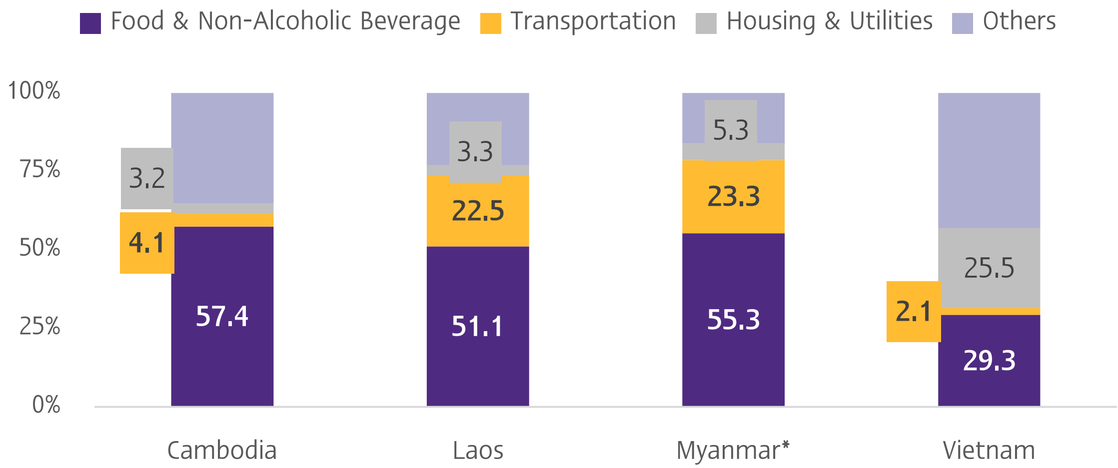
Headline inflation

Unit: %YOY

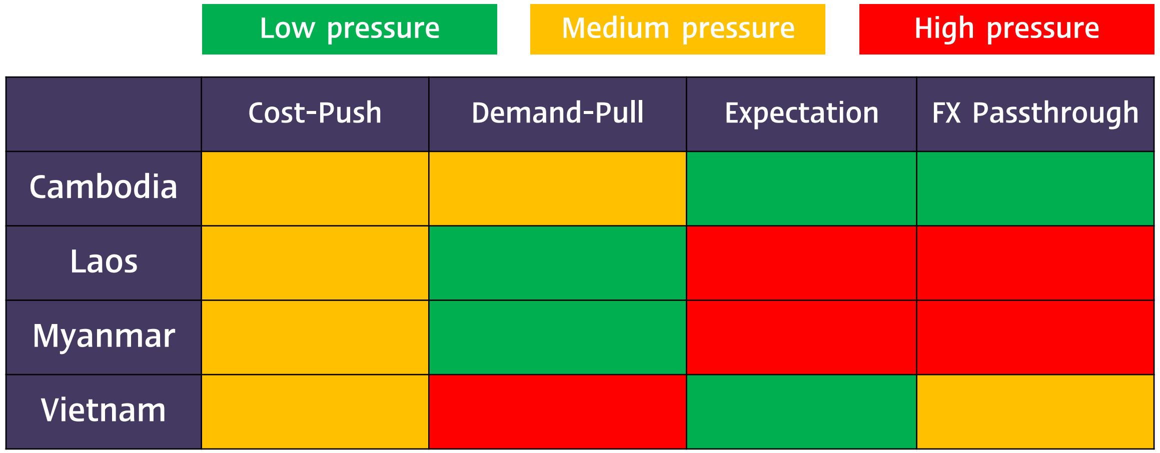


Inflation breakdown (November 2022)

Unit: %



Expected level of inflationary pressure in 2023



Inflation Outlook 2023

Cambodia: Slower inflation in line with global commodity prices; Cambodian highly-dollarized economy should partly help alleviate impacts from volatile exchange rates.

Laos: Inflation remains high as the LAK tends to fall further alongside fragile external stability—this could take a heavy toll on the import-reliant Laos via higher import prices of consumer goods.

Myanmar: Inflation remains high due to the weak MMK, which continues to plummet, given a sharp drop in foreign-currency revenue and deteriorated investor sentiment amid the political crisis.

Vietnam: Inflation to pick up slightly alongside domestic demand recovery, weaker VND, and cost-of-living relief measures that will soon conclude. Yet, falling global commodity prices will help soften inflationary pressure.

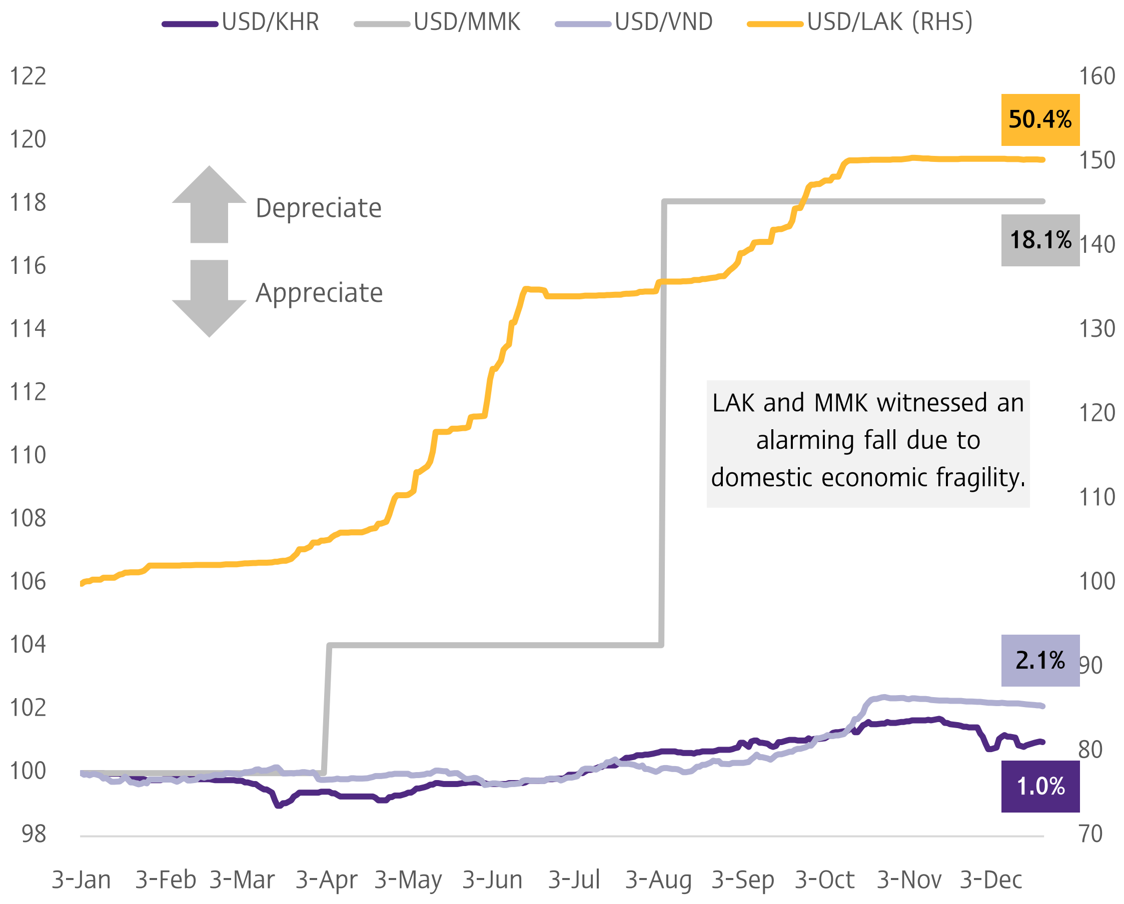
Note: *Myanmar's data is as of July 2022.

Source: SCB EIC analysis based on data from CEIC and World Bank.

Downward pressures on CLMV currencies should weaken, thanks to a rebound in foreign tourism receipts and slower Fed rate hikes. Still, fragility remains due to depleting foreign reserves.

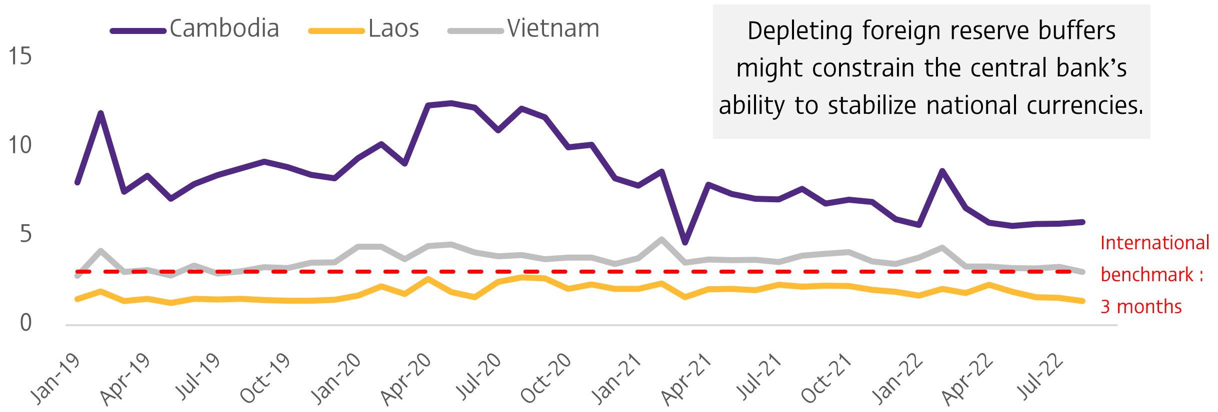
CLMV currencies vs. US dollar, 2022

Unit: index (100 = 3 Jan 2022)



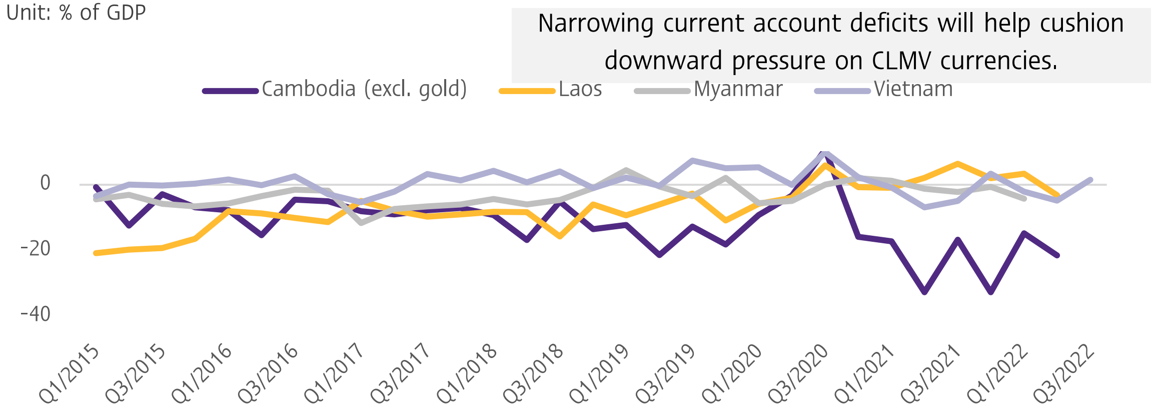
Foreign reserves in months of imports

Unit: months



Current account balance

Unit: % of GDP

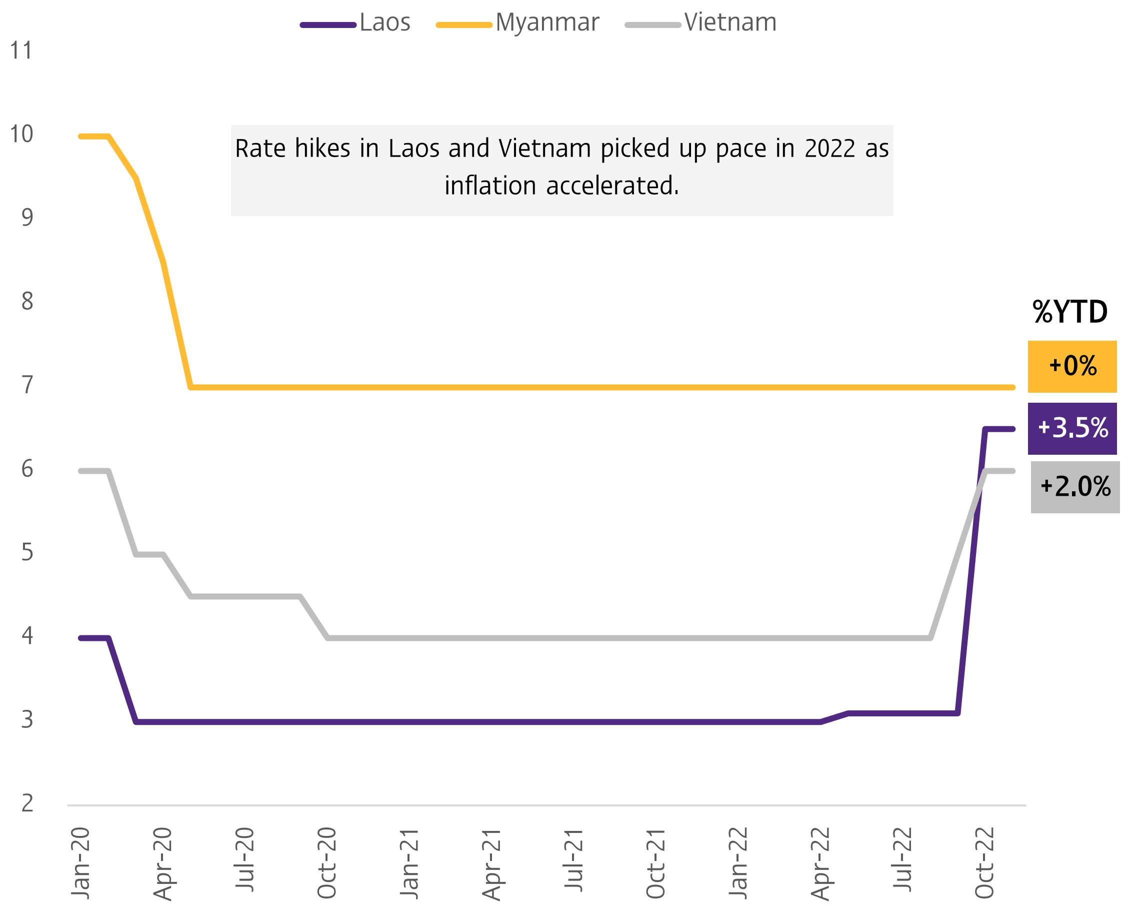


Source: SCB EIC analysis based on data from CEIC.

CLMV central banks will likely stay the course on tighter monetary policy in 2023, in order to tame inflation amid an economic recovery. Still, rate hikes should be slower after inflationary pressures subside.

CLMV policy rates

Unit: %

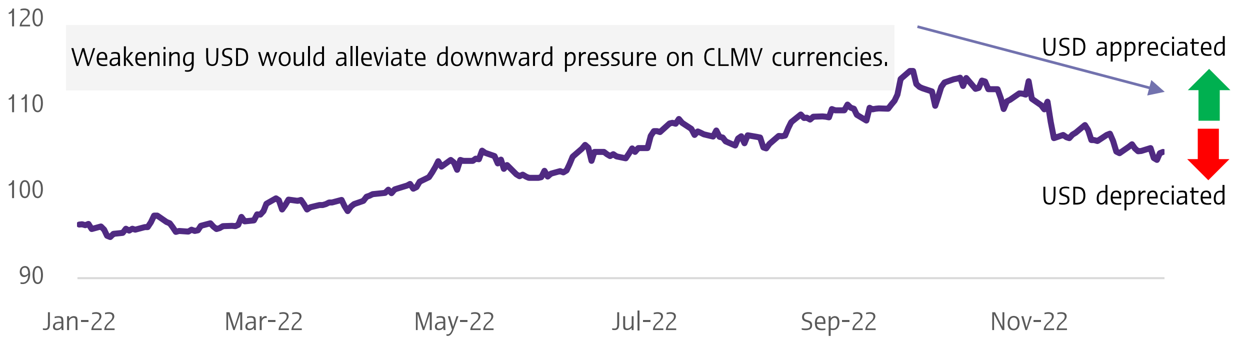


CLMV policy rate hikes should be modest in 2023

1. **Downward pressure on CLMV currencies gradually tailed off** as the USD weakened in response to the Fed's signal of a rate-hike slowdown.
2. **Low demand-pull inflation** since CLMV economic recoveries remain below growth potentials, particularly Laos and Myanmar. Meanwhile, inflation was primarily supply-push, and global commodity prices look to wind down in 2023.
3. **Some countries are facing higher credit risks.** Vietnam's real estate market was caught up in liquidity shortage as a tightening financial market triggered a credit crunch—a possible risk to economic stability.

Dollar Index (DXY)

Unit: index



Source: SCB EIC analysis based on data from CEIC.

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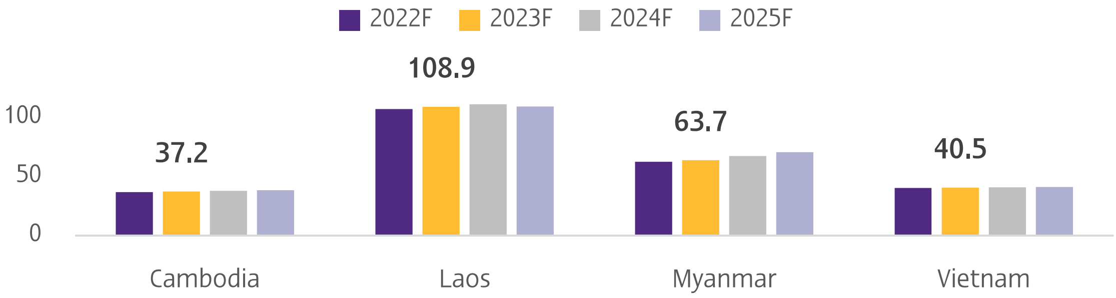
CLMV debt burden heightened due to tight financial conditions and weakening local currencies. In Laos and Myanmar, fragility comes from public debt, whereas those of Cambodia and Vietnam stemmed from private debt.

Public Debt

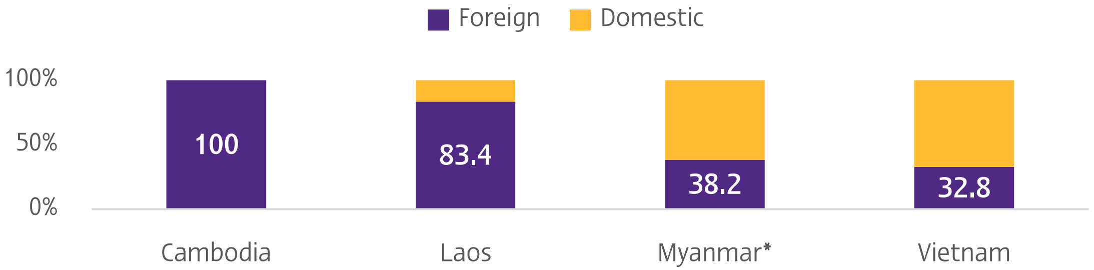
IMF forecast of public debt to GDP ratio (as of Oct 2022)

Unit: % of GDP



Public debt breakdown (domestic/ foreign debt)

Unit: % of total public debt, 2021



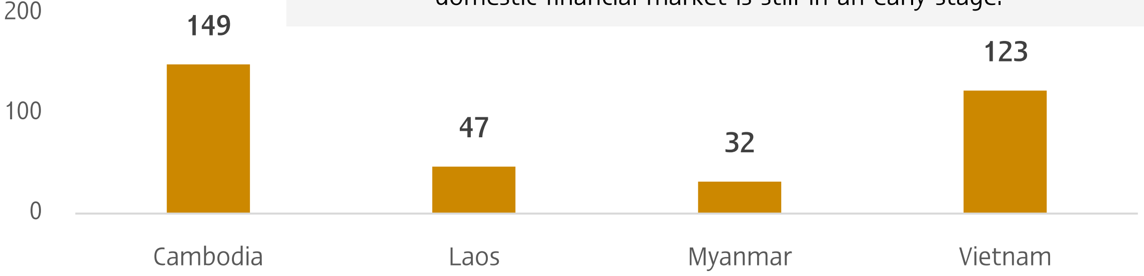
The global financial condition has increasingly tightened and became an acute risk to countries with high external public debt. Among CLMV, Laos has the highest public debt to GDP ratio amid rapid LAK depreciation, high external debt, and low foreign reserve buffers.

Private Debt

Loan outstanding (at financial institutions) to GDP

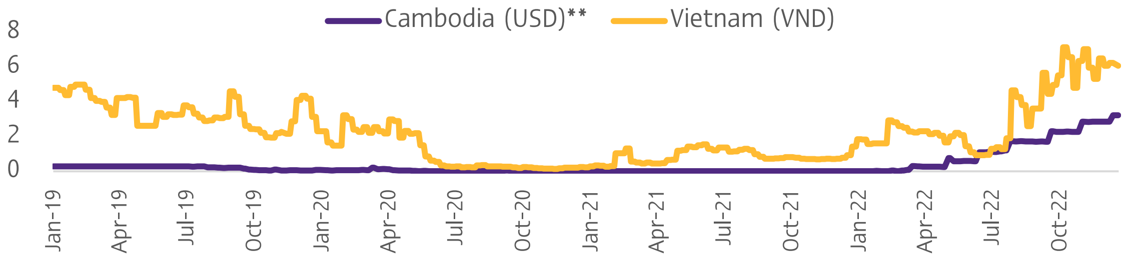
Unit: % of GDP

Local firms in CLMV primarily rely on financial institutions since the domestic financial market is still in an early stage.



Interbank rates (7-day)

Unit: %



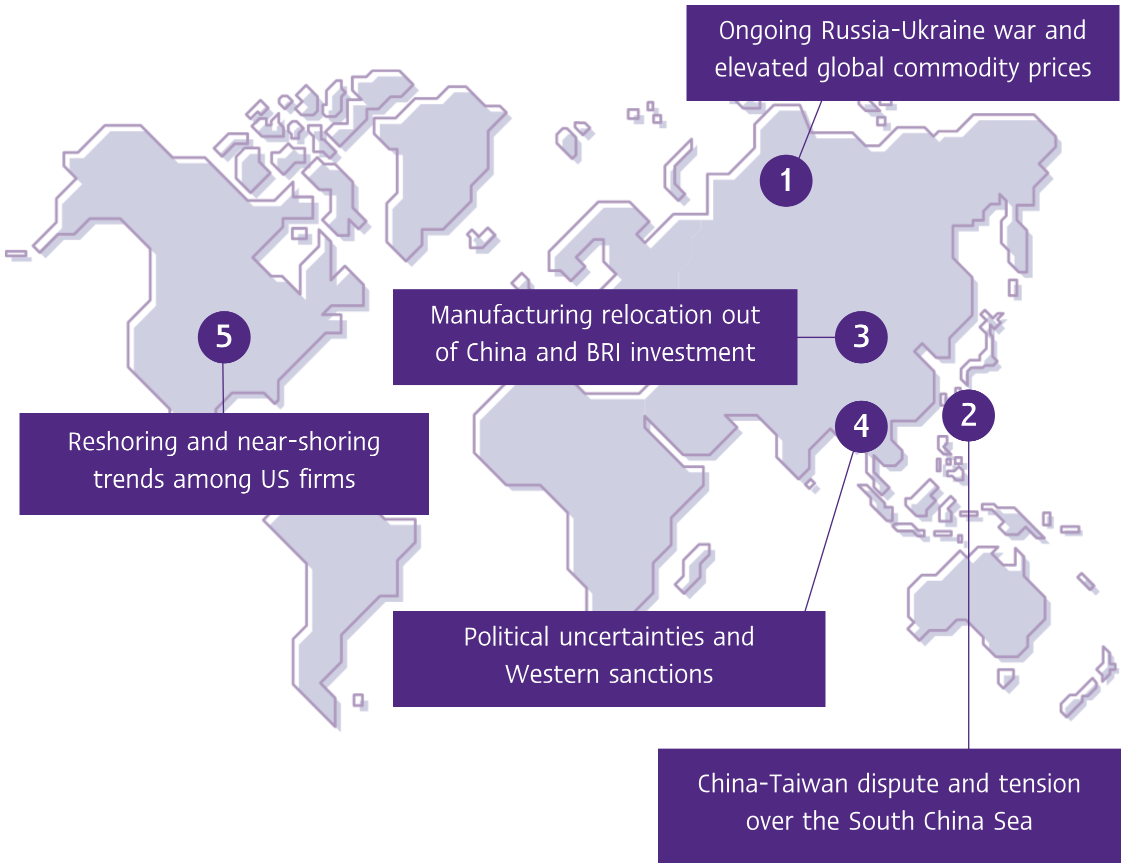
Interbank rates in Cambodia and Vietnam saw an upsurge, reflecting a tighter financial condition. Given costlier financing, financial institutions would curb their lending which could hinder firms' liquidity.

Note: *IMF estimation as of August 2019 **Cambodia's interbank rate is the interest rate from the Negotiable Certificate of Deposits (NCD)—a short-term debt instrument issued by the National Bank of Cambodia to help financial institutions with liquidity.

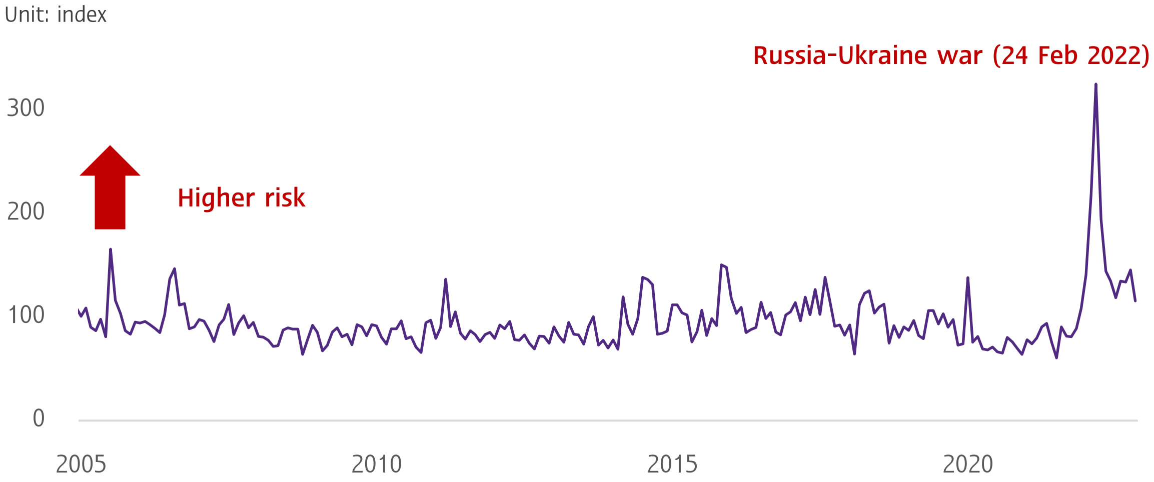
Source: SCB EIC analysis based on data from CEIC, IMF, and CLMV finance ministries.

Escalating geopolitical risks could become both boon—through manufacturing relocation and the Belt and Road Initiative (BRI) investment—and bane to the CLMV region.

Geopolitical risks that might affect CLMV economy



Geopolitical Risk Index



Opportunities

- **Manufacturing relocation out of China** would bolster FDI to CLMV.
- **China's BRI investment might pick** up to rival US influence.
- **China and the US may step up regional partnerships**, a lucrative opportunity for CLMV to enhance its economic potential.

Challenges

- **Regional disputes** could trigger supply chain disruptions.
- **Rising political tension,** particularly in Myanmar, where the upcoming election has drawn global scrutiny concerning human rights, freedom, and transparency.
- **Trade barriers** will likely increase.

Source: SCB EIC analysis based on data from www.matteoiacoviello.com and foreign press.

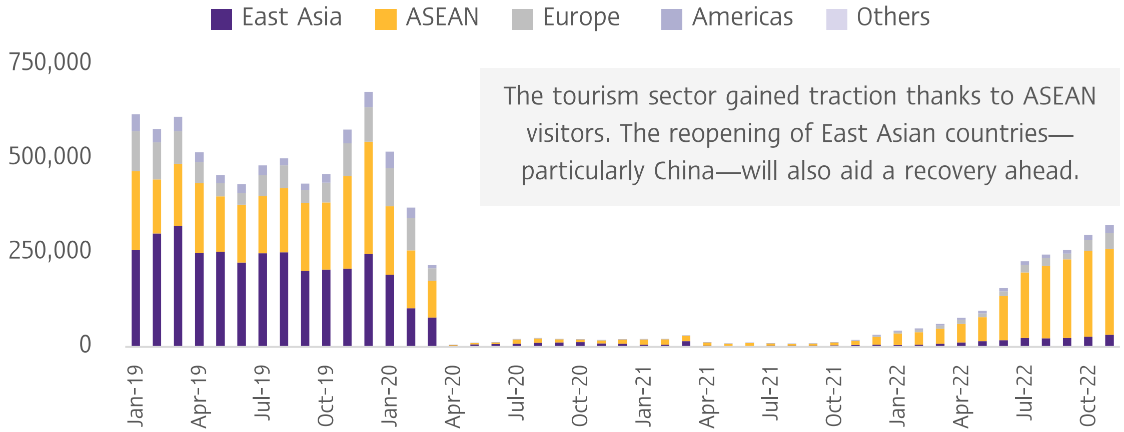
Cambodia economy

Cambodia's economy recovered on the back of upbeat tourism and domestic demand. Still, the global economic slowdown would inhibit exports and FDI. Risks to monitor in 2023 come from (1) Soaring private debt amid tightening financial conditions and (2) current account deficits, which might exacerbate a volatile local currency.

Cambodia's economy will witness a stronger growth of 5.5% in 2023, backed by a rebound in the tourism sector and the labor market in line with domestic demand recovery.

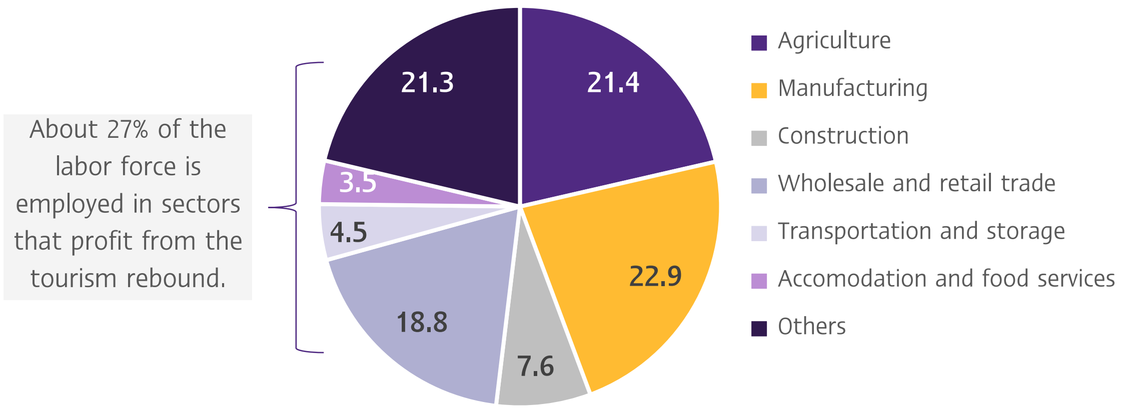
Number of foreign tourist by region

Unit: person



Employment by sector, 2019

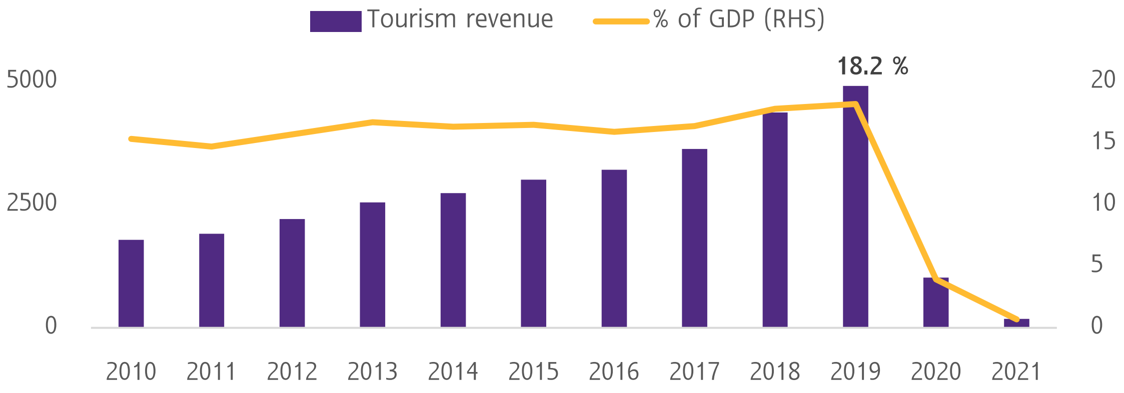
Unit: % of total employment



Tourism revenue (domestic and international)

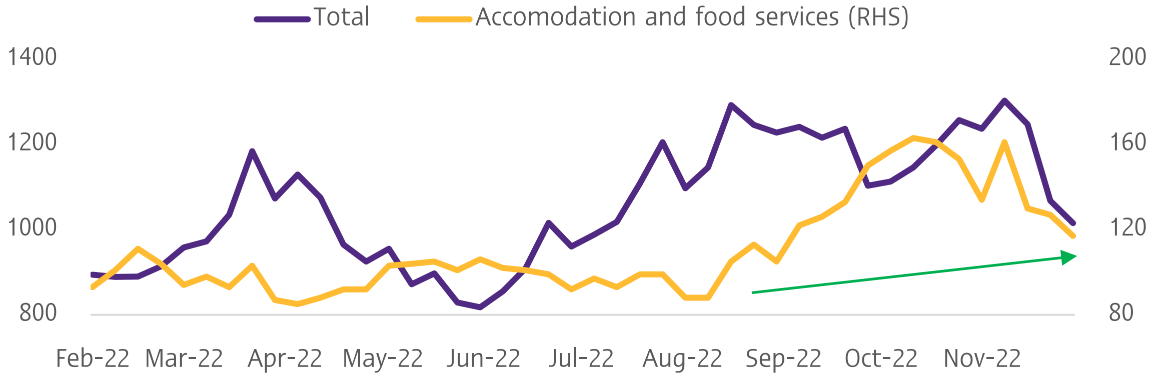
Unit: USD million

Unit: % of GDP



Number of job postings*

Unit: job opening

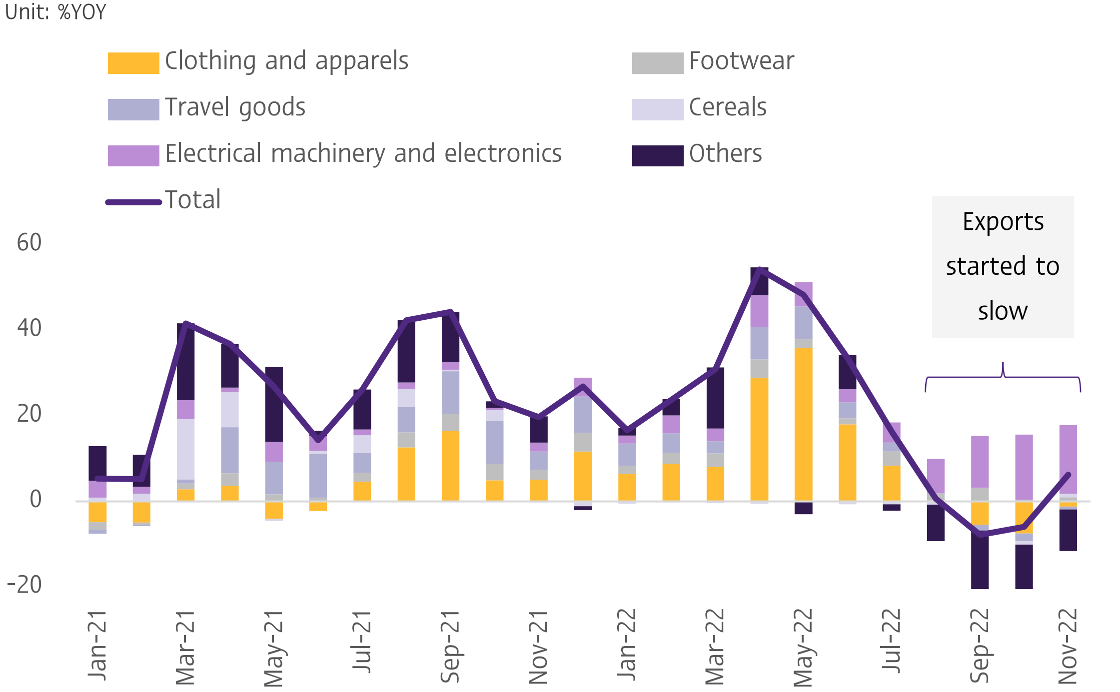


Note: *Data from Revelio Labs, a workforce intelligence company providing analysis on the labor market.

Source: SCB EIC analysis based on data from CEIC and National Institute of Statistics (Cambodia).

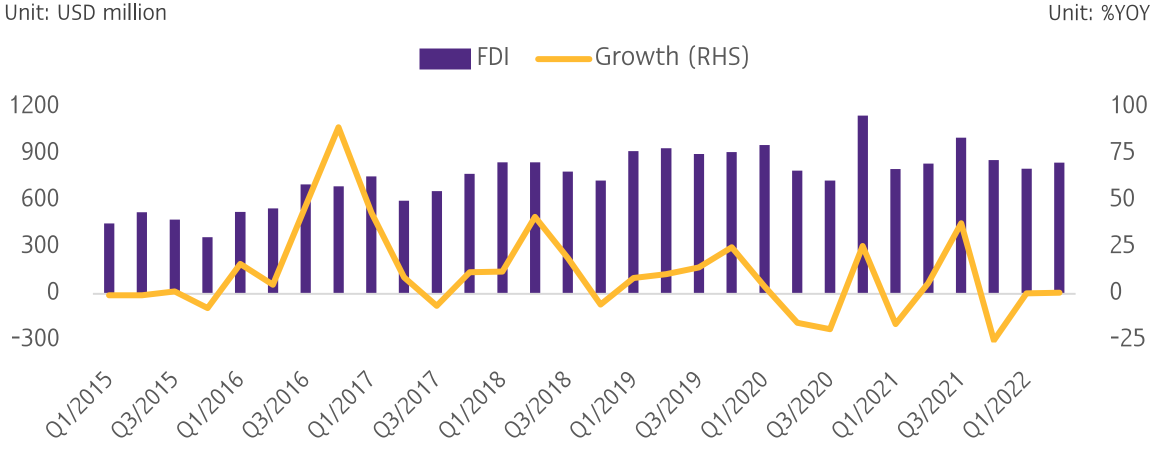
The global economic slowdown pressured exports and FDI to Cambodia, whilst impetus from China's reopening will be gradual. Thus, FDI would take time to regain its pre-pandemic ground.

Exports growth breakdown (excl. gold, gems, and pearls)

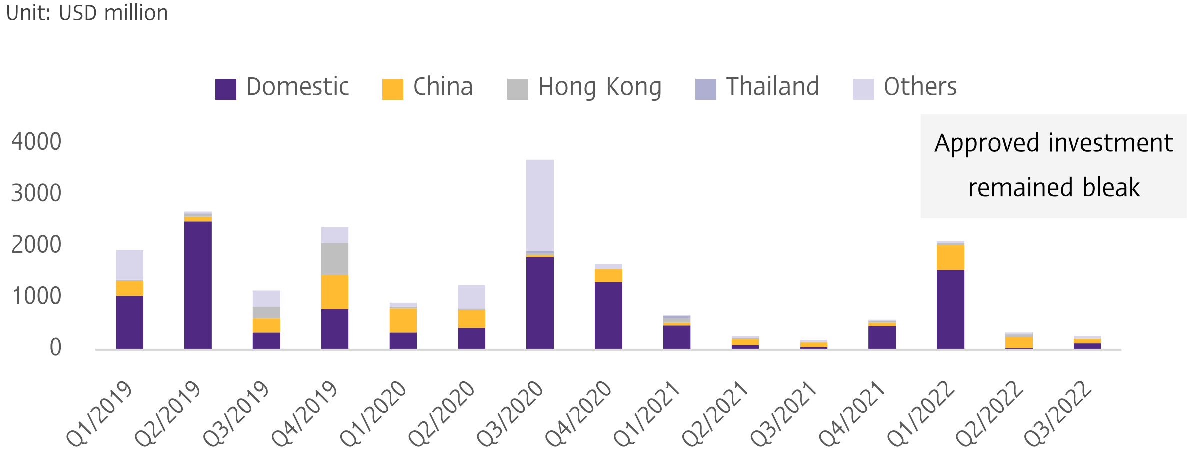


- **Cambodia's exports faltered,** especially garments and travel goods which are major export categories, as the global economic slowdown and high inflation hampered foreign purchasing power.
- **Electronic goods are growing contributors to exports** thanks to lockdown-induced demand. This should help Cambodia integrate into a higher level of the global supply chain.
- **Inward and outward investment remained somber due to** fragile economic recovery.

Foreign direct investment



Approved investment (domestic and FDI)

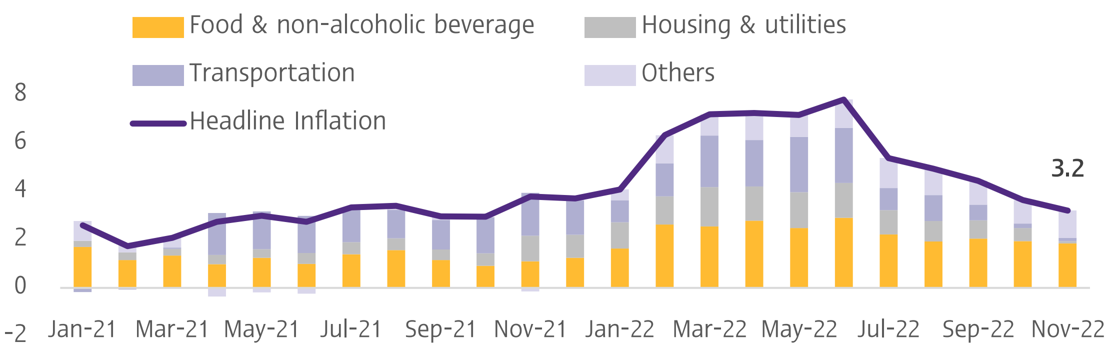


Source: SCB EIC analysis based on data from CEIC.

Inflation looks to slow in 2023, in line with lower global commodity prices, and thus aid domestic demand recovery. Still, Cambodia needs to be heedful of inflation impacts on debt serviceability—particularly in the private sector.

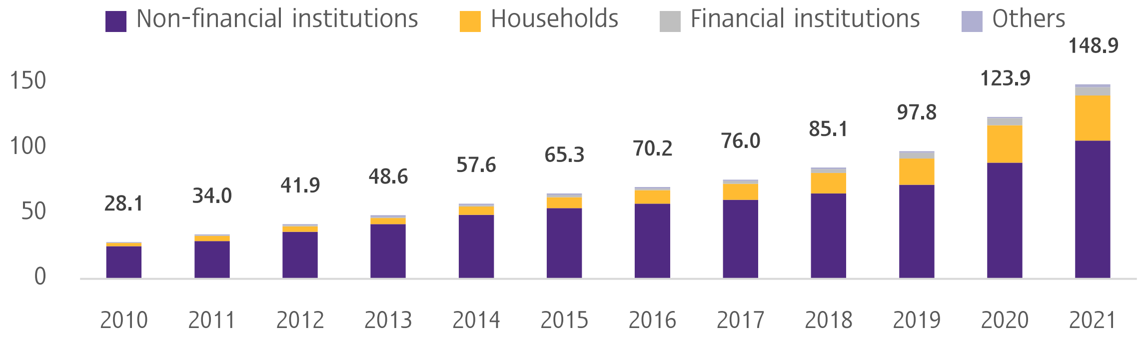
Headline inflation breakdown

Unit: %YOY



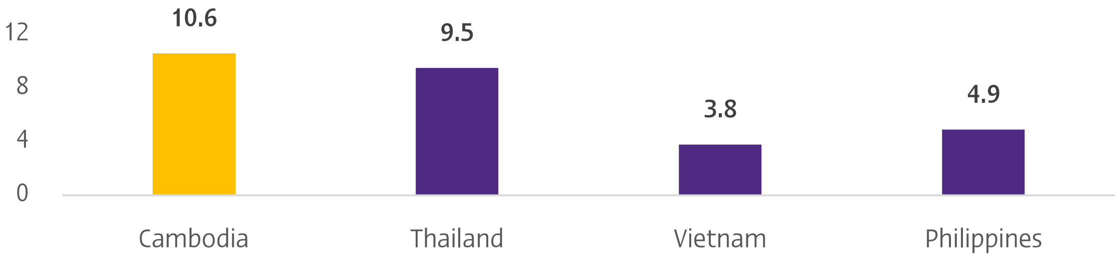
Loan outstanding to GDP

Unit: % of GDP



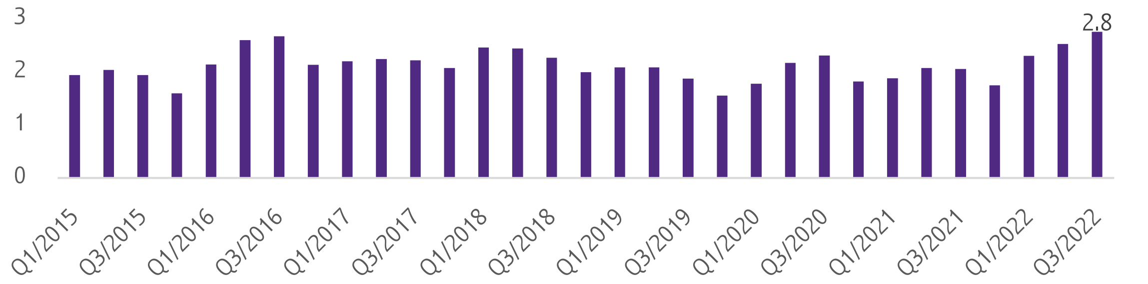
Petroleum imports to GDP*

Unit: % of GDP



NPL Ratio

Unit: % of total loans at financial institutions



Cambodia's inflation mainly came from imports, especially oil products. With higher import reliance—compared to regional peers—and low demand-pull inflation, falling global commodity prices would significantly lower Cambodia's inflation in 2023.

Outstanding loans grew rather rapidly. This could become an acute risk if households' and firms' debt serviceability deteriorates further due to an economic slowdown or high inflation. NPL ratio also rose slightly after the debt restructuring period ended.

Note: *Imports in the first three quarters of 2022 vs. GDP in 2021.

Source: SCB EIC analysis based on data from CEIC.

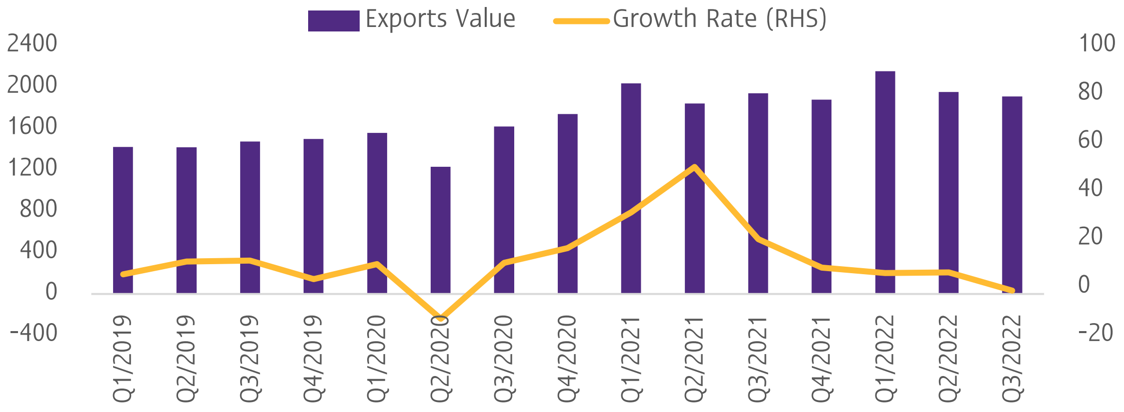
Laos economy

Laos' economy rebounded slowly as high inflation and weakening LAK impaired households' purchasing power and fiscal stability. Nonetheless, China's reopening and China-Laos high-speed railway will help strengthen the recovery. Key risks that warrant monitoring are fiscal and external fragility and swelling inflation.

Laos' economy will gradually regain footing with 3.5% growth in 2023, thanks to tailwinds from upbeat domestic demand, FDI inflows after China's reopening, and the China-Laos railway, which helps cut transportation time for exports and traveling.

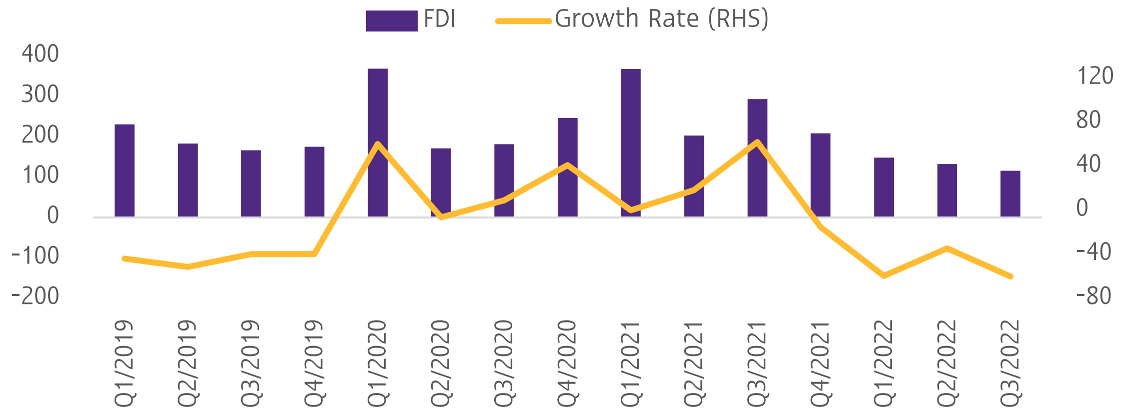
Exports value

Unit: USD million | Unit: %YOY



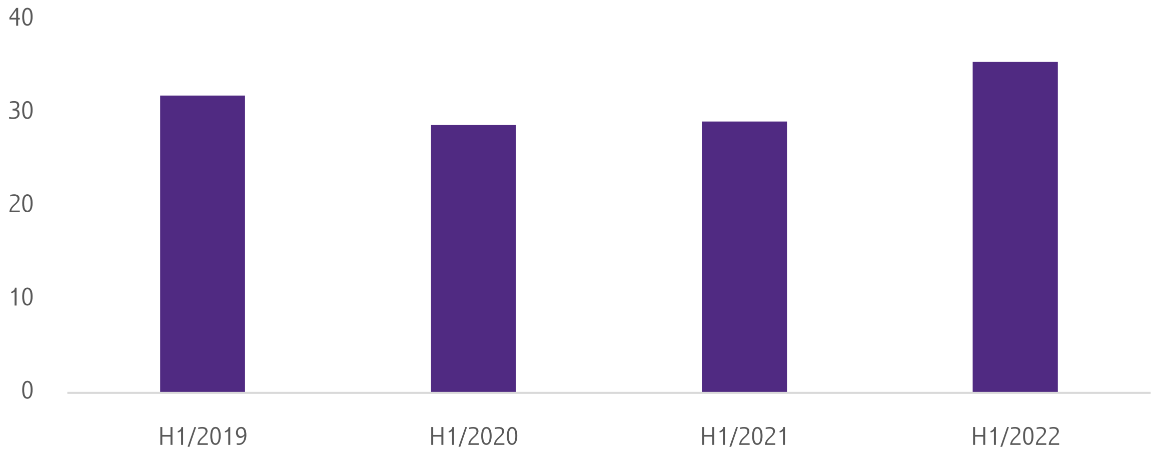
Foreign direct investment

Unit: USD million | Unit: %YOY



Wholesale-retail trade value

Unit: LAK trillion



- **Laos' exports slackened** as a result of high-base effects, global demand pivoting to services, China's economic slowdown, and local firms struggling with high inflation and weakening LAK. In contrast, electricity exports to Thailand increased.
- **FDI inflows shrank**, partly because major investment projects concluded in 2021, whereas new investment remained low due to high economic uncertainties.
- **Wholesale-retail trade ticked up from a low base** after the Lao government eased COVID-19 restrictions. Still, high inflation continued to weigh down consumption, especially in H2/2022.

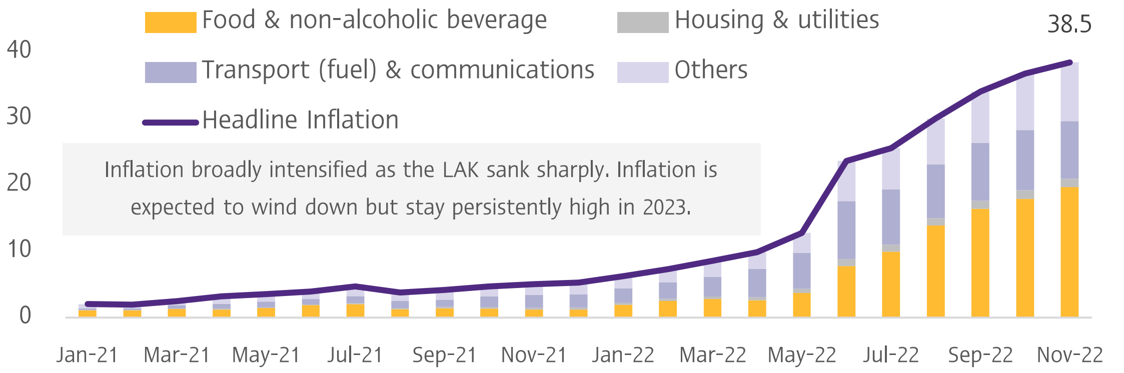
Source: SCB EIC analysis based on data from CEIC, World Bank, and the Ministry of Industry and Commerce (Lao PDR).

Laos' economic fundamentals remained fragile, both in terms of price and external stability.

High inflation, low reserve buffers, and long-running current account deficits will continue to put downward pressure on LAK and derail the inflation cooldown.

Headline inflation

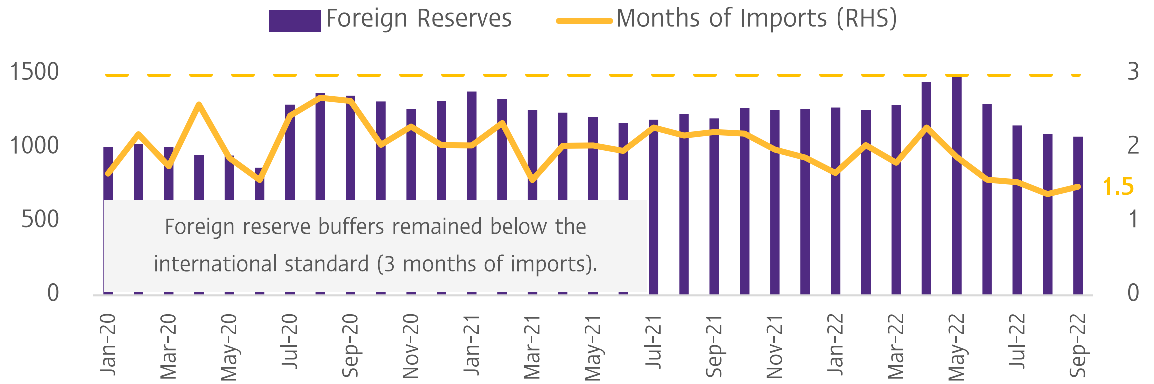
Unit: %YOY



Foreign reserves in months of imports

Unit: USD million

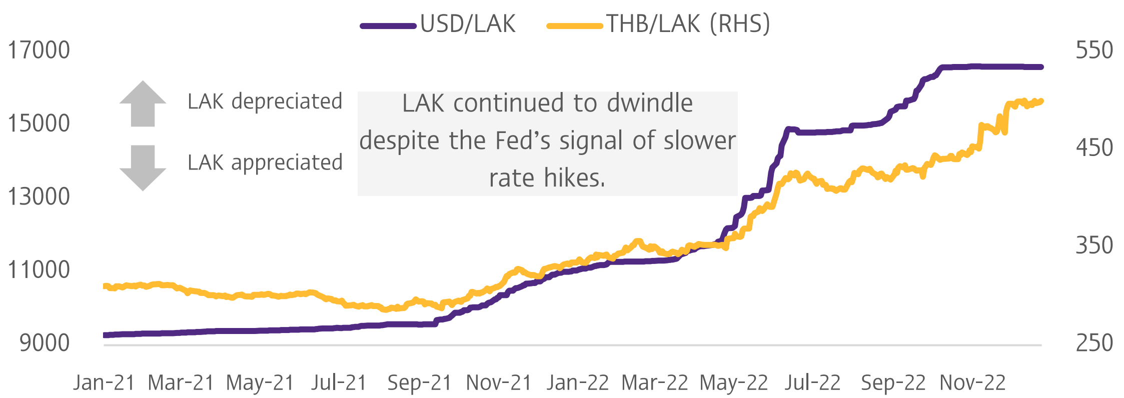
Unit: month



USDLAK and THBLAK

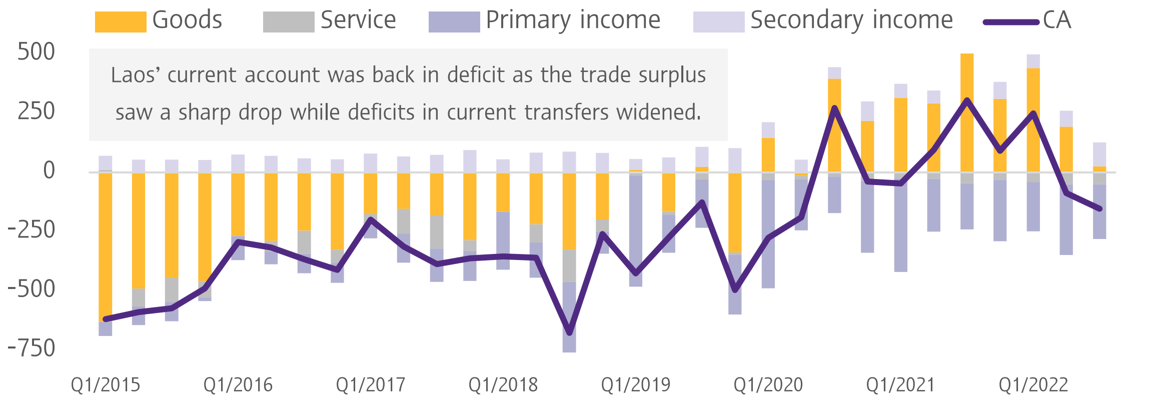
Unit: USD/LAK

Unit: THB/LAK



Current account balance

Unit: USD million



Source: SCB EIC analysis based on data from CEIC, Bank of Lao PDR, and Bank of Thailand.

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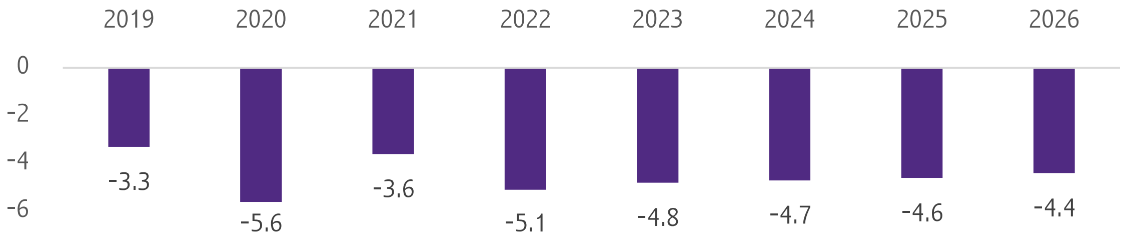
Fiscal stability remains fragile as the global financial conditions increasingly tightened while external public debt remained high; the Lao government should negotiate debt structuring, especially with China, to find debt solutions.

Forecast of fiscal balance by IMF

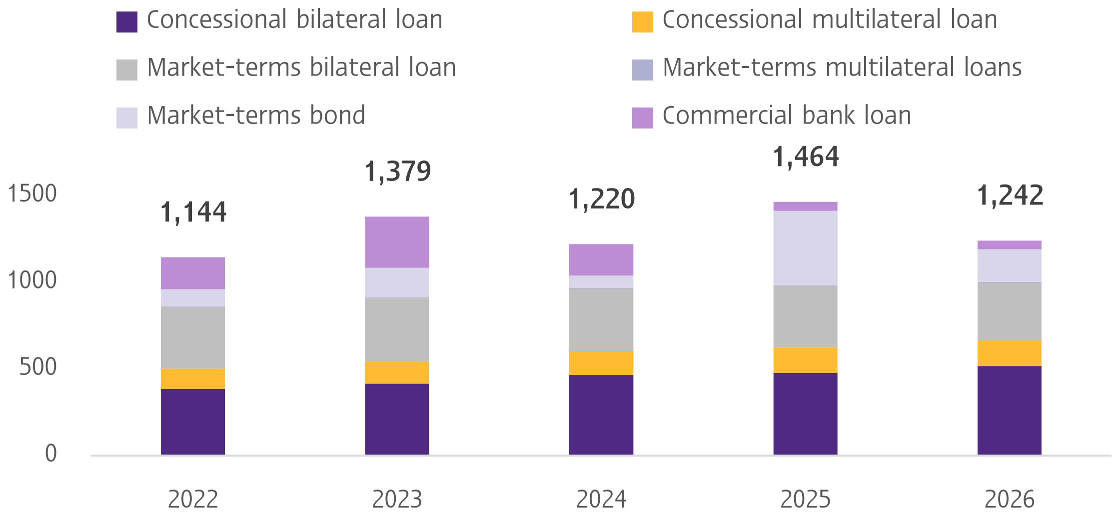
Unit: % of GDP

Laos' fiscal shortfall continued and spiraled into the so-called 'twin deficit' alongside the current account deficit.



Forecast of external public debt service by Ministry of Finance (Lao PDR)*

Unit: USD million

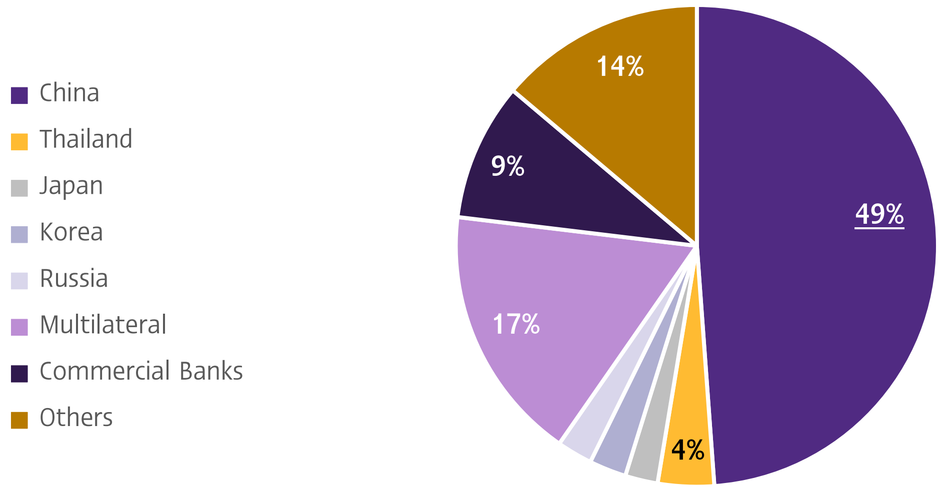


Note: *Including principal and interest burden.

Source: SCB EIC analysis based on data from Ministry of Finance (Lao PDR).

Public debt breakdown (by creditor), 2021

Unit: % of total debt



Laos will face a high external public debt service burden at around USD 1.1-1.5 billion per year until 2026—reflecting fragile fiscal stability, given tight reserve buffers. As of September 2022, Laos' foreign reserves amounted to only USD 1.1 billion. Besides, as LAK sharply weakened, Laos' debt burden in LAK would also swell up. Thus, the Lao government should negotiate debt restructuring—especially with China, who owns about 50% of Laos' total external debt. The possible solutions include debt forbearance and economic restructuring to increase revenue in foreign currencies, such as promoting tourism and exports via China-Laos high-speed railway.

Myanmar economy

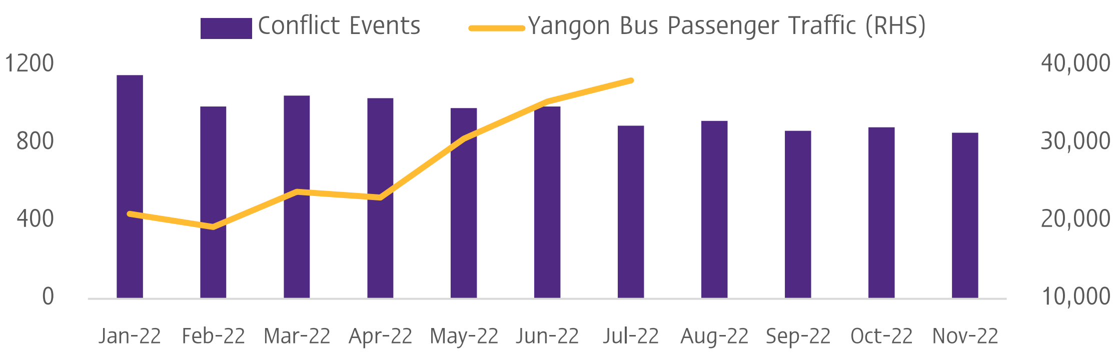
Myanmar's economy shows sign of a moderate recovery with economic activities gradually normalizing. However, the recovery remains fragile and below potential growth as a result of deep economic scars. Global economic slowdown also adds more pressures on Myanmar economic recovery.

Myanmar's economy in FY2022/2023 is expected to recover moderately at 3.5% after the effects of political unrests gradually ease but exports and manufacturing remain subdued by the global economic slowdown.

Conflict events and Yangon bus passenger traffic*

Unit: Time

Unit : Thousand persons – time

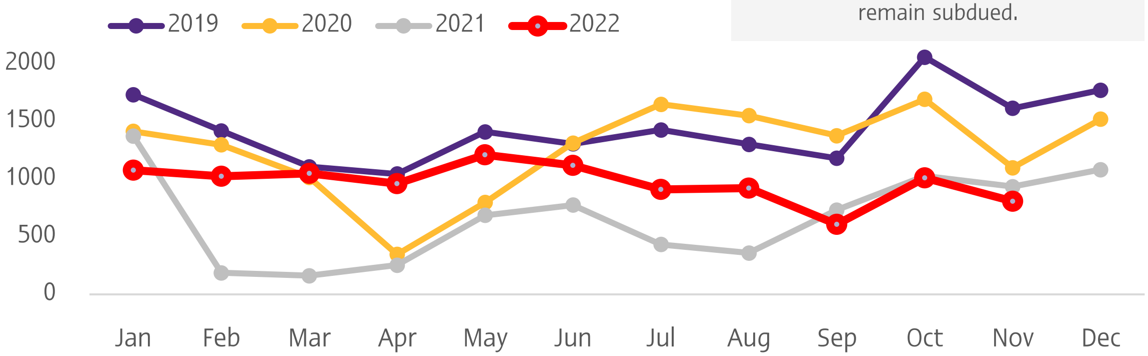


Conflict events gradually declined, while passenger traffic rose from a low level

New businesses registered

Unit: Number of businesses

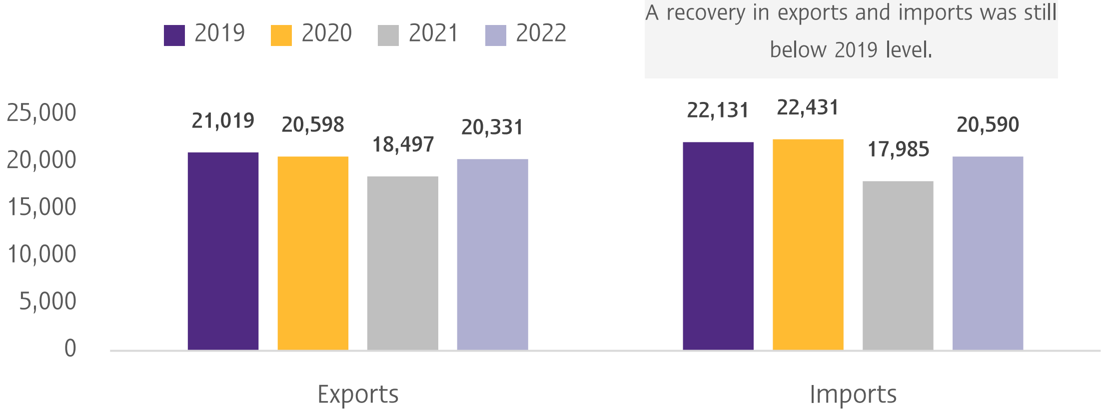
New businesses registration resumed but remain subdued.



Exports and imports

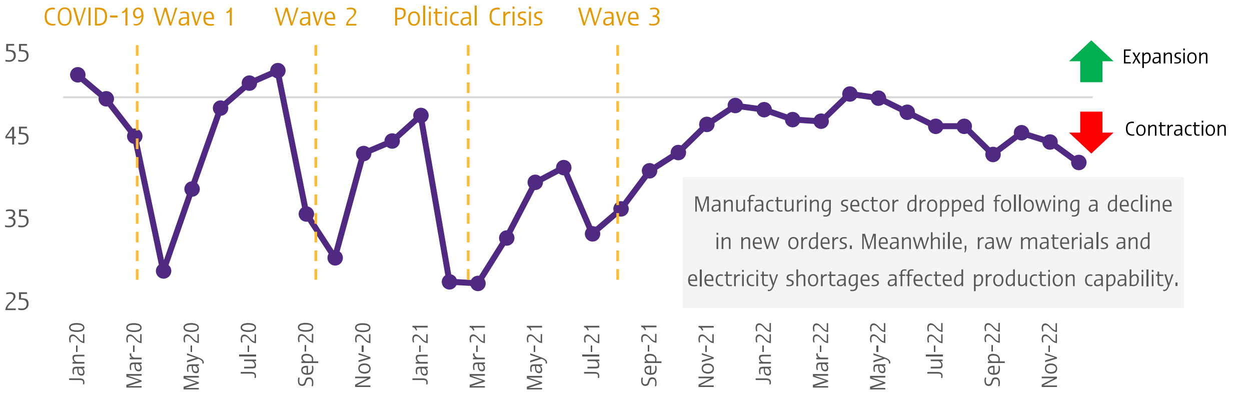
Unit: USD million

A recovery in exports and imports was still below 2019 level.



Manufacturing Purchasing Managers Index

Unit: Index (>50 = expansion)



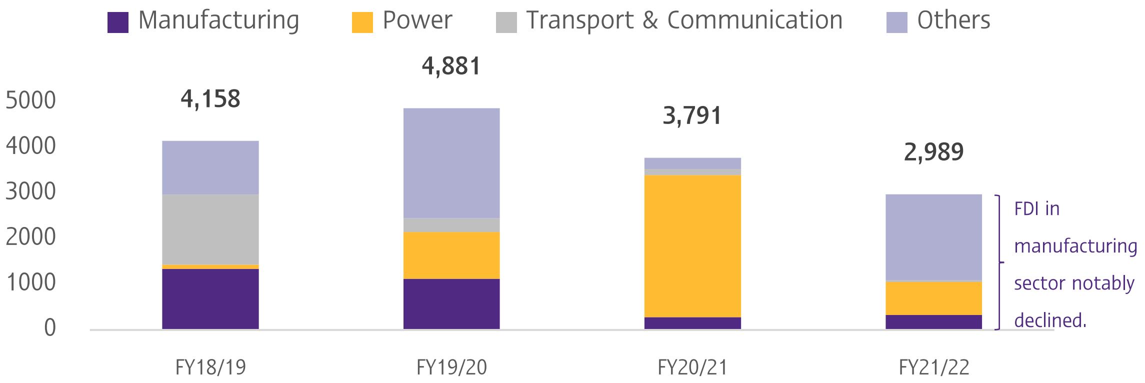
Manufacturing sector dropped following a decline in new orders. Meanwhile, raw materials and electricity shortages affected production capability.

Note: *Conflict events include battles, explosions and remote violence, protests and riots, and violence against civilians.
Source: SCB EIC analysis based on data from ACLED (https://acleddata.com/), S&P Global and CEIC.

Multiple economic challenges will cause Myanmar's economy to see subdued growth in the medium term and worsen vulnerabilities in the fiscal and external sectors.

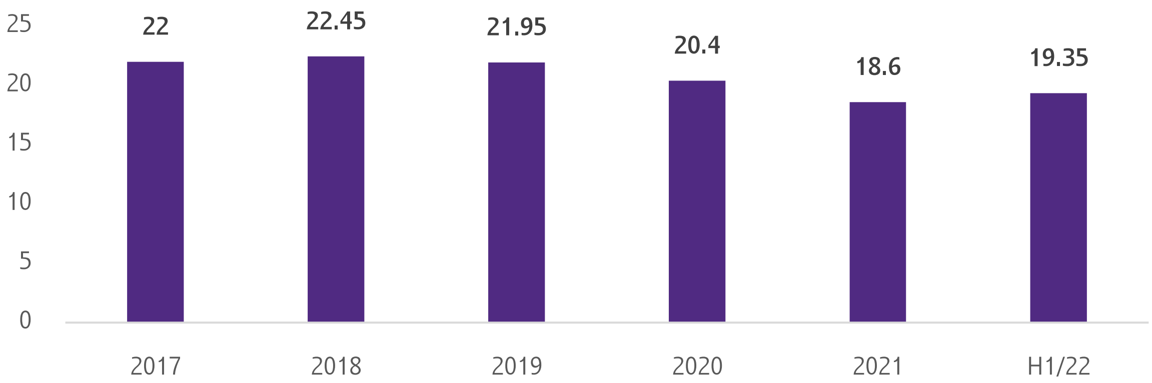
Approved foreign direct investment decreased*

Unit: USD million



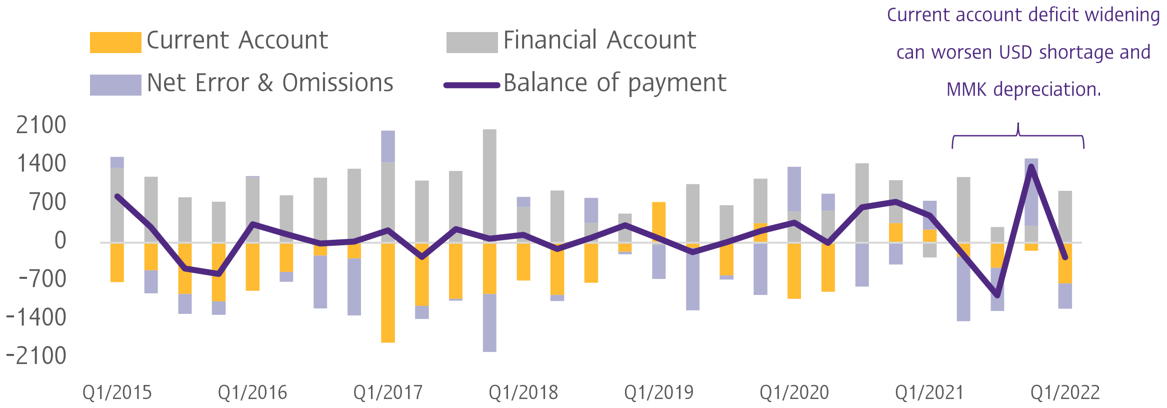
Employment decreased (ILO forecast)

Unit: Million persons



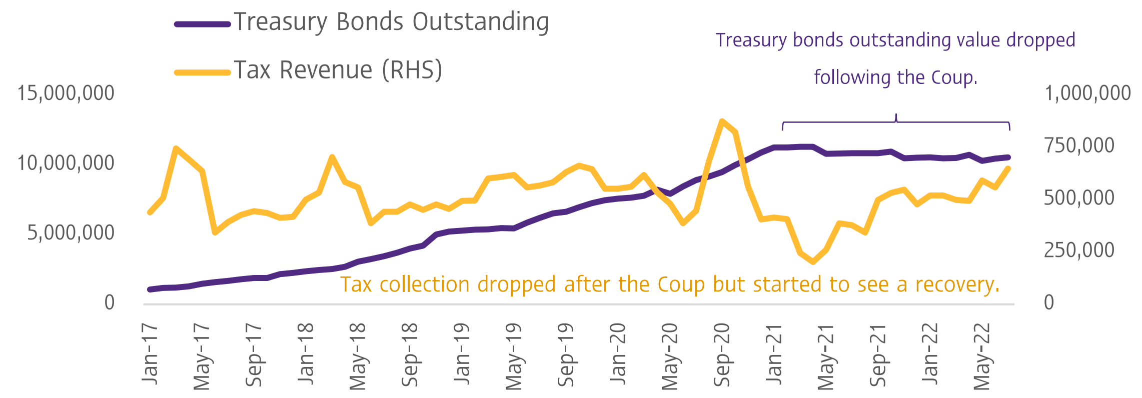
Current account deficit widened as foreign income dropped

Unit: USD million



Government funding and tax collection face more difficulties

Unit: MMK million



Note: *Fiscal year period starts from October to September.

Source: SCB EIC analysis based on data from International Labour Organization and CEIC.

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The upcoming Myanmar general election planned for August 2023 might not ease political situations or affect negative sentiment from the West. Thus, sanctions are expected to remain.

Key political developments

1. **The military court sentenced Aung San Suu Kyi to 7 more years in prison, taking jail time to 33 years** for counts of corruption, regardless of The United Nations Security Council (UNSC) announcement for Myanmar to release all political prisoners. This should result in continued sanctions and political unrests.
2. **Financial Action Task Force (FATF) blacklisted Myanmar over terrorism financing,** requiring member countries planning to do business in Myanmar to have more stringent due diligence. This further aggravates Myanmar's business environment.
3. **Battles between Myanmar's military and ethnic armed groups have continued in many parts of the country,** affecting people's wellbeing and economic activities in those areas. The persistent violence will limit a recovery in both consumer and business confidence.
4. **Myanmar's government has begun discussing with some ethnic groups** to prepare for a general election in areas controlled by ethnic armies.

Myanmar political outlook 2023

If Myanmar holds a general election in 2023:

- The USDP (with deep ties to Myanmar Army) will likely get the majority votes and form the government.
- The NLD (cofounded by Aung San Suu Kyi) is expected to play a limited role in the general election since many members have been under arreste by the government.
- Western nations view this general election as not transparent and will maintain sanctions but some nations with neutral opinion may regain more confidence in investment.

If Myanmar does not hold a general election in 2023:

- Uncertain political situation and violence may force the government to postpone a general election to control the situation and maintain power.
- In this scenario, economic uncertainties remain high, which might affect foreign direct investment from the countries that have not sanctioned Myanmar.
- Myanmar sanctions may intensify if the government uses more violence.

In both scenarios, the political situation will remain unresolved and cause a disruption in economic activities, pressuring Myanmar's economic recovery in the medium term.

Source: SCB EIC analysis based on data from International news agencies.

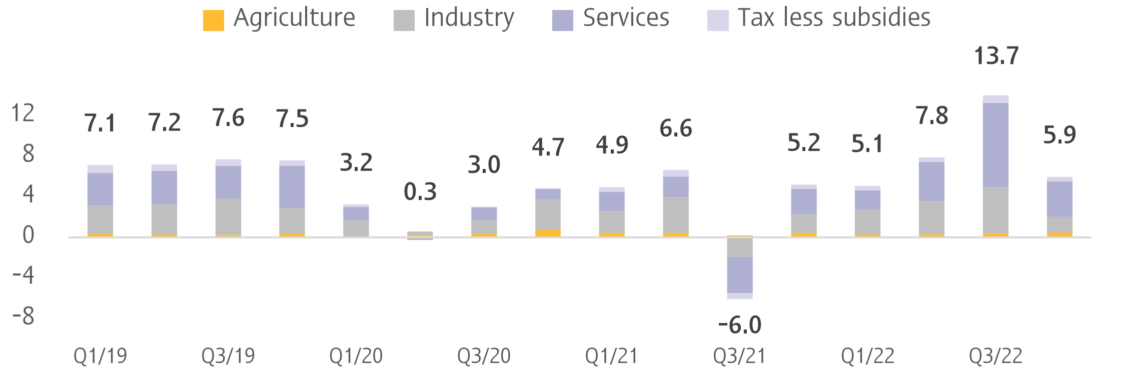
Vietnam economy

Vietnam’s economy is expected to grow at a slower pace following decelerating exports and foreign direct investment. Domestic demand may slow down from tightening monetary policy and declining employment in manufacturing sector going forward.

Vietnam's economic growth is expected to slow down to 6.2% in 2023, pressured by the global economic slowdown, especially affecting exports and foreign direct investment, which Vietnam economy heavily relies on.

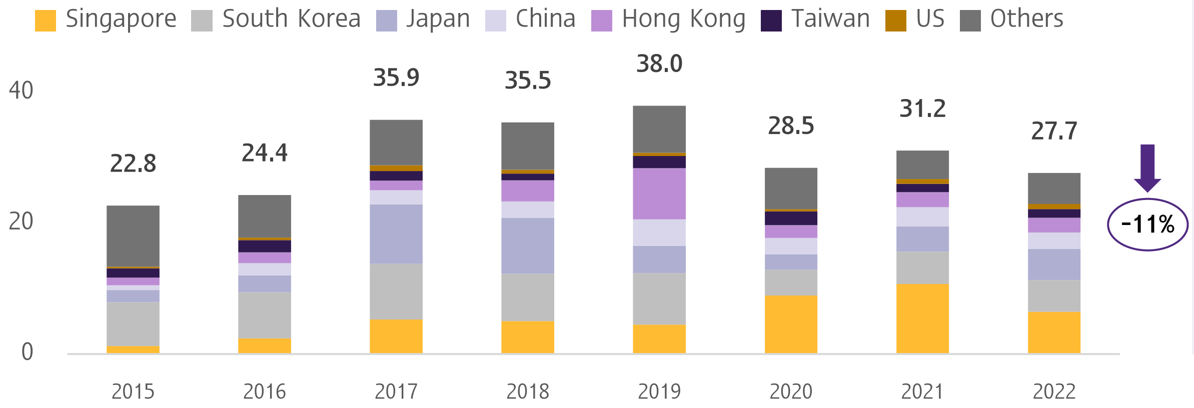
GDP growth

Unit: %YOY



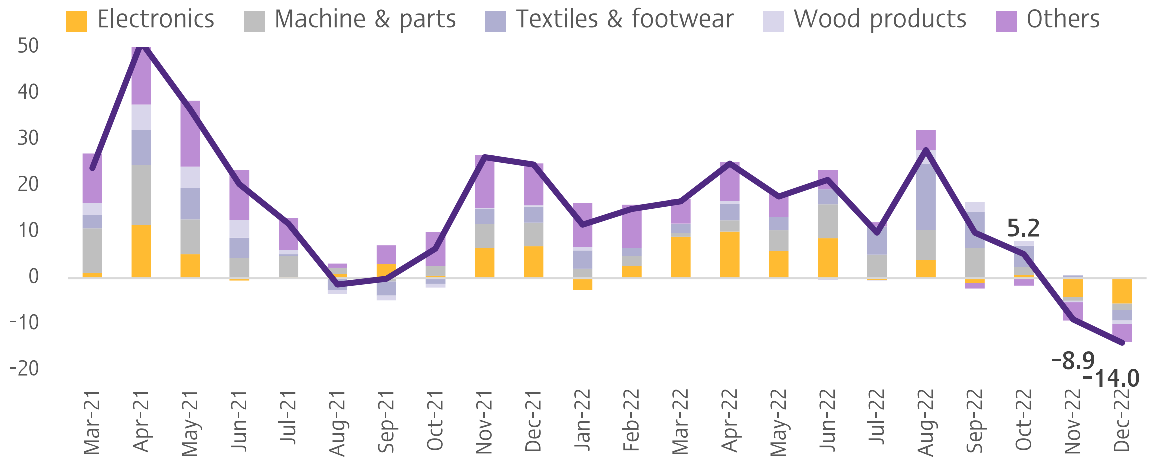
Approved Foreignn Direct Investment (FDI)

Unit: USD billion



Exports growth

Unit: %YOY



- **Vietnam expanded sharply at 8% in 2022,** supported by COVID-19 restriction easing, tourism reopening, exports, and low-base effects from 2021.
- **Vietnam started to get affected by the global economic slowdown in Q4 2022,** reflected by declining exports as Vietnam has deep ties to global supply chains, especially in the manufacturing sector. The global economic slowdown will continue this year and add more pressures to Vietnam's economy going forward.
- **Approved foreign direct investment in 2022 has not returned to pre-COVID-19 level. An -11% decrease** implies that FDI disbursement will be sluggish in 2023.

Source: SCB EIC analysis based on data from CEIC.

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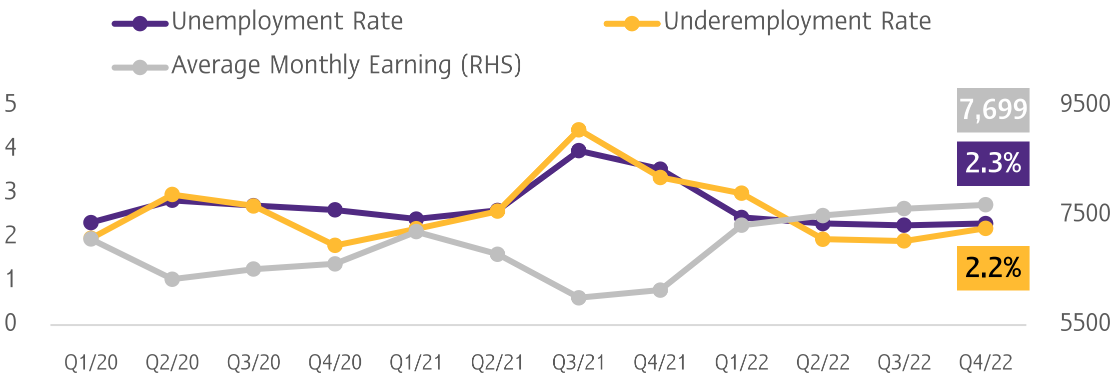
Domestic demand likely slows down from lower employment in the manufacturing sector following a decline in exports. However, consumption in services after economic reopening will cushion consumption.

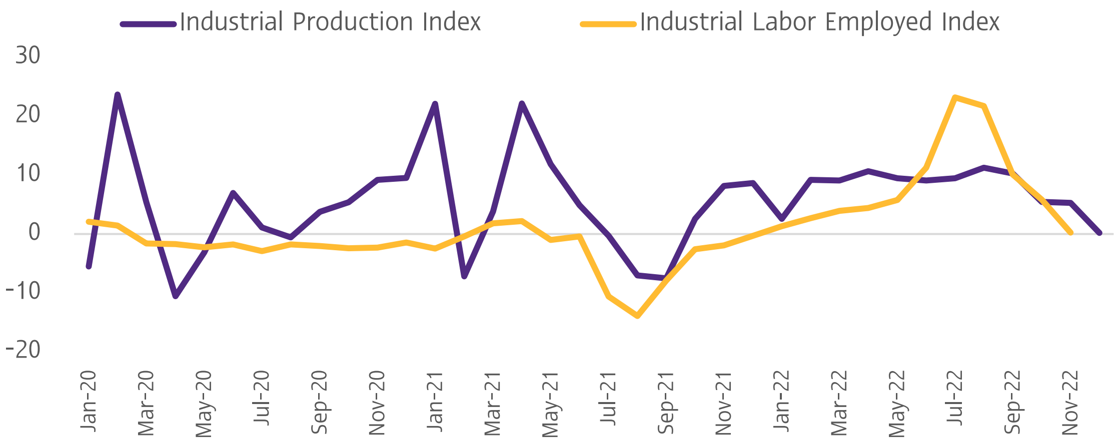
Unemployment rate and average monthly earning

Unit: % Unit: VND thousand



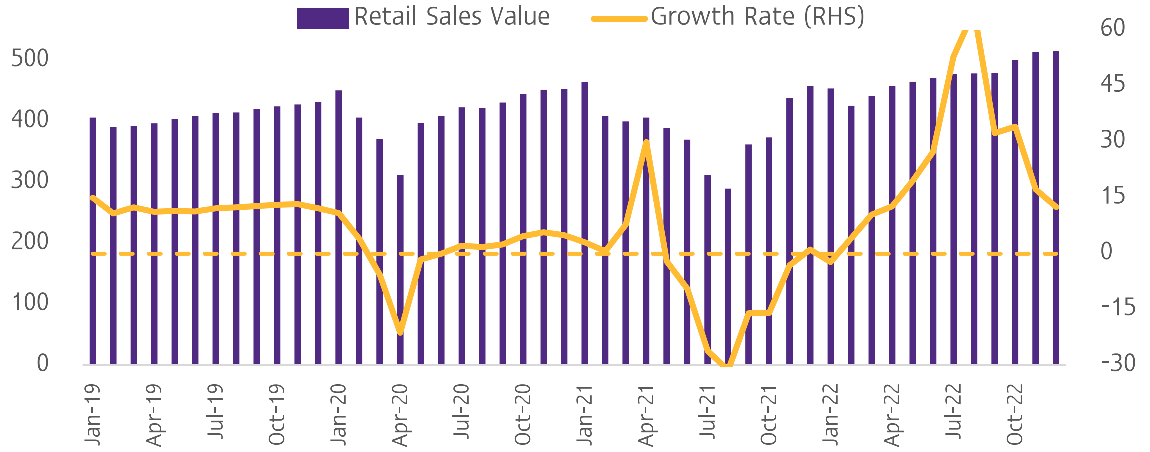
Industrial Production Index and Industrial Labor Employed Index

Unit: %YOY



Retail sales

Unit: VND trillion Unit: %YOY



- **Vietnam's labor market have rebounded back to pre-COID-19 level but started to show signs of fragility in Q4 2022,** reflected by a 0.3 ppt increase in underemployment rate from the previous quarter, in line with declining industrial labor employed index. **Industrial and construction sectors comprise 33% of total labor force,** which is vulnerable to the economic slowdown.
- **Weakening labor market also affects domestic retail sales.** However, domestic consumption should still improve in 2023, driven by pent-up demand for tourism, accommodation, and restaurant, but the growth may not be high.

Source: SCB EIC analysis based on data from CEIC.

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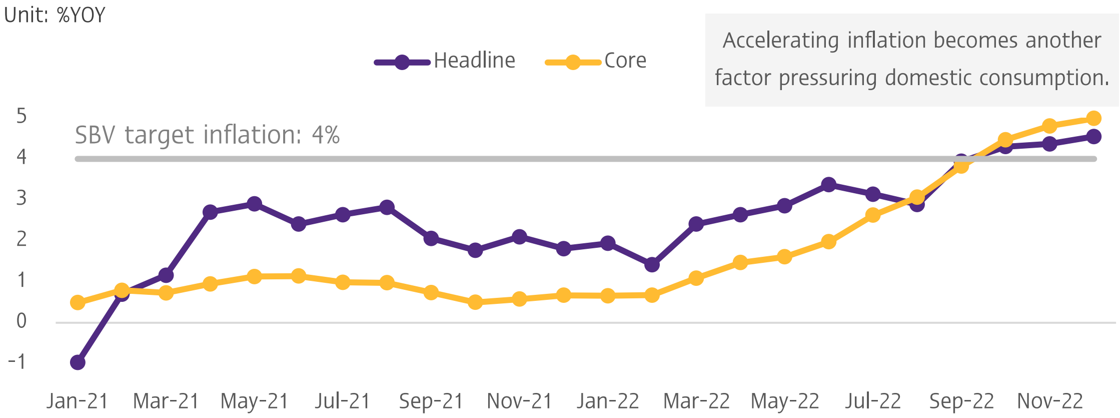
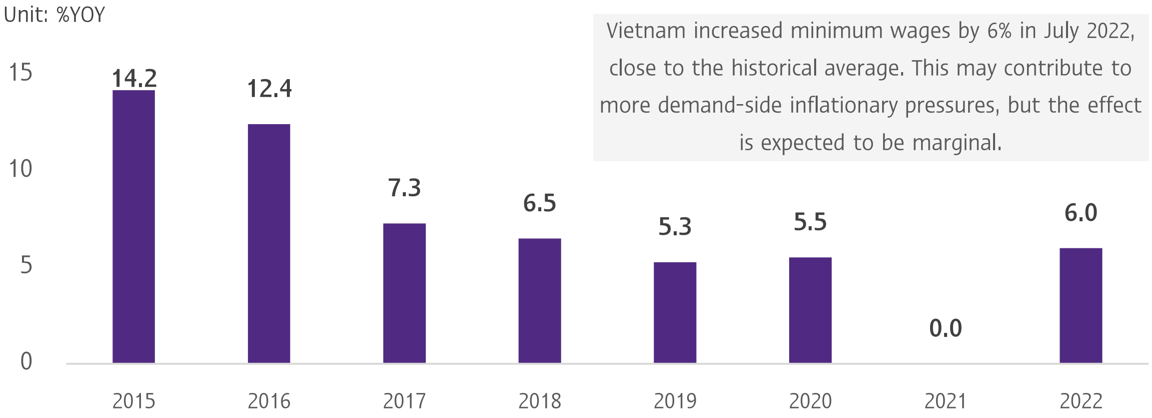
Vietnam's inflation is expected to slightly accelerate in the short-term following higher demand pressure, but fuel tax cuts and global commodity price drop will slow down inflation in the later half of the year.

Headline and Core inflation



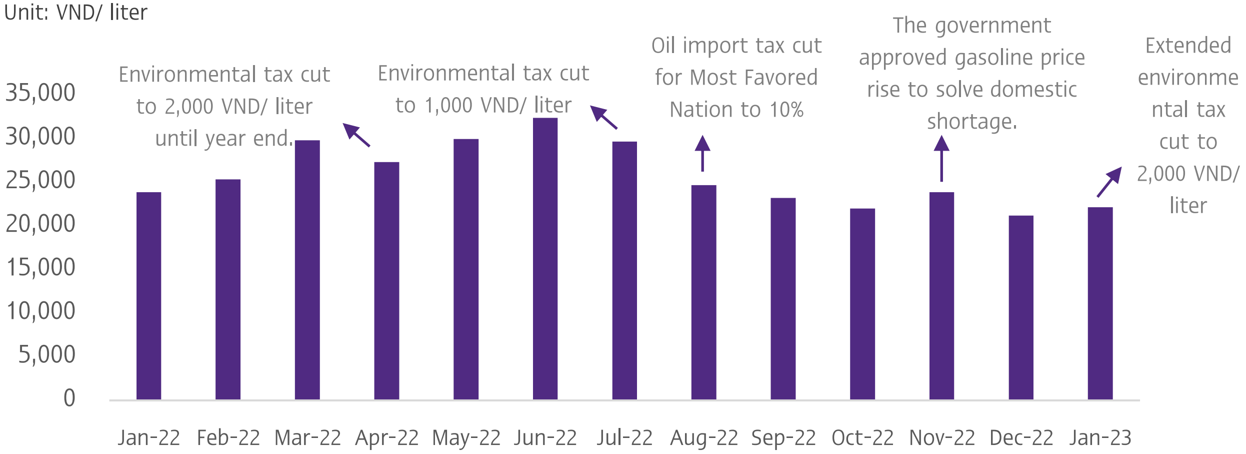
Minimum wage raise (country average)



Why does Vietnam's inflation rise slower than other countries in the region?

1. **Vietnam announced fuel tax cuts to control domestic retail prices of gasoline** which adjusts every 10 days. The government has also cut environmental tax on gasoline by 75% to 1,000 VND/ liter since June 2022 and cut Most-Favored Nation import duties to 10% for oil imports from countries without a free trade agreement. **However, the control of retail prices of gasoline may lead to domestic shortage of fuel supply as occurred in November 2022.**
2. **VND depreciates less than other currencies in the region,** lowering inflationary pressure from import prices.
3. **Vietnam's food production is sufficient for domestic consumption** so there is lower impact to food prices.

Domestic retail prices of gasoline (RON 95-III gasoline)*



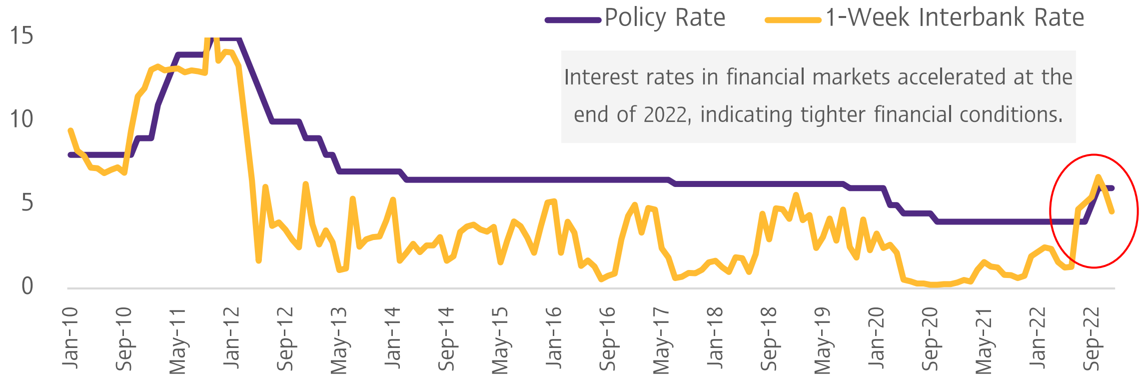
Note: *Price as of 11th of each month or nearby date.

Source: SCB EIC analysis based on data from CEIC, Reuters, Nikkei Asia, Vietnam Briefing and PVOIL.

SBV is expected to continue monetary policy tightening to curb high inflation and depreciating VND but unlikely to hike policy rates aggressively as the economy began to slow down and the financial market faced liquidity shortage.

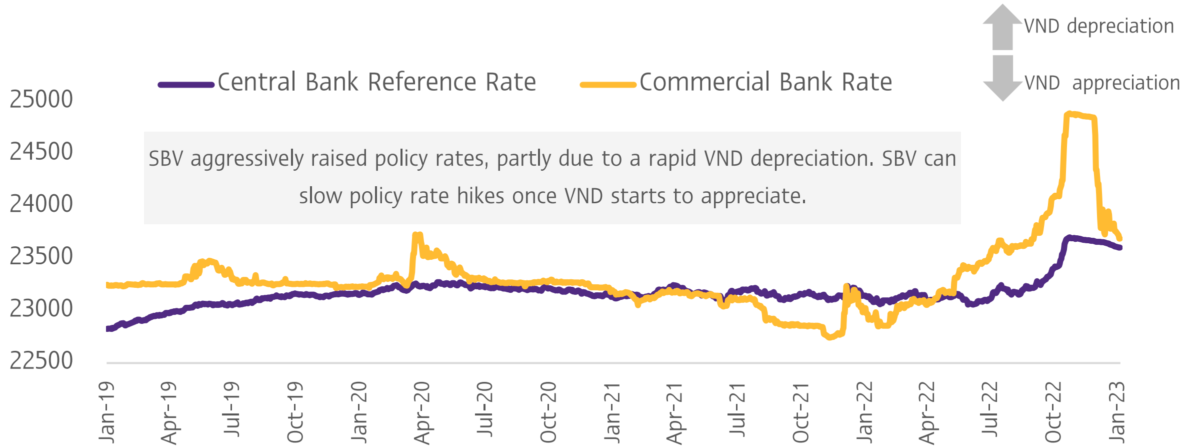
Policy rate and 1-week Interbank Rate

Unit: %



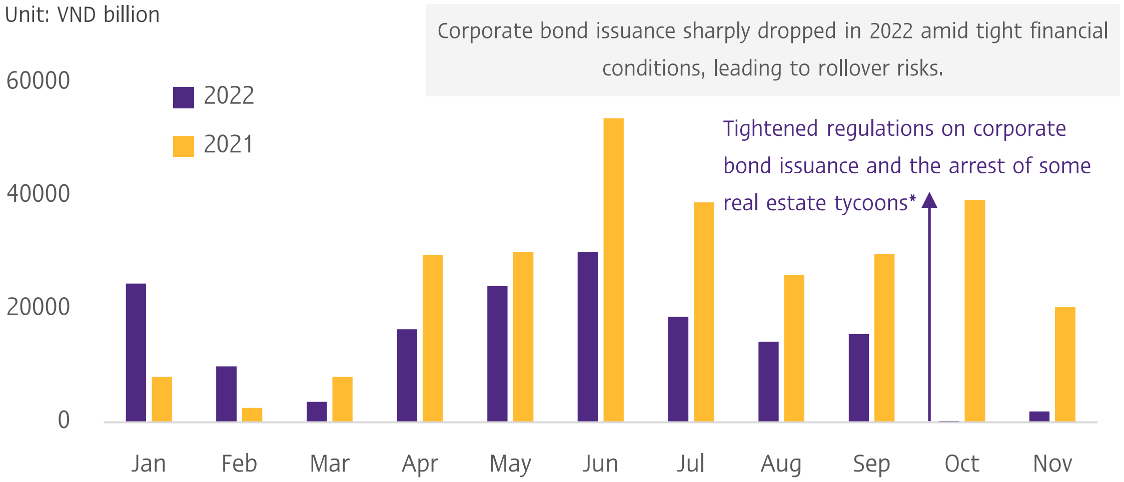
USD/VND

Unit: USD/VND



Value of newly issued corporate bonds

Unit: VND billion



Vietnam's liquidity shortage and government measures

Some companies in Vietnam faced liquidity problem, particularly in real estate sector with high reliance on fundraising from the bond market,

Key factors :

1) Rapid policy rate hikes, 2) Tightened regulations on corporate bond issuance, and

3) Lower investor confidence, which reduces confidence in the bond market, increases cost of fund, and makes it more difficult to borrow from commercial banks or issue bonds, affecting liquidity management. **The government plans to ease some measures and supports debt restructuring of companies with liquidity crisis**, including postponing the enforcement of regulations on new bonds to alleviate tensions in the financial market. This is expected to ease the problem, but only gradually, since monetary policy is still tight, and the economy is starting to slow down.

Note: *Truong My Lan, Chairperson of Van Thinh Phat Holdings Group for illegally issuing bonds.

Source: SCB EIC analysis based on data from CEIC, VietinBank, Vietnam Bond Market Association and international news agencies.

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