HSBC Global Research

9 January 2024

Vietnam at a glance

If winter comes, can spring be far behind?

Free to View
Economics - Vietnam

- With yearly GDP growth of 5.1% in 2023, in line with HSBC's expectations, Vietnam's economy is on a firm recovery track
- Despite a rosy picture, risks to trade and inflation warrant a closer look; we expect growth to accelerate to 6.0% in 2024
- While we await more details on the implementation of a 15% corporate tax rate, the impact on FDI should be manageable

Yun Liu
ASEAN Economist
The Hongkong and Shanghai Banking Corporation Limited

Jun Takazawa
Economist, Asia
The Hongkong and Shanghai Banking Corporation Limited

Sanguine economic outlook

Just like the optimism Percy Bysshe Shelley conveyed in his well-known "Ode to the West Wind", Vietnam is seeing a glimmer of hope for better growth prospects going forward. Broadly speaking, its GDP growth rose to 6.7% y-o-y in 4Q23, lifting its yearly growth rate to 5.1%. This is in line with our forecast of 5.0%, which we have maintained for more than six months, despite a downward revision to 4.6% among consensus. Sector-wise, its key exports returned to meaningful growth in 4Q23.

Do not forget the risks

Still, the risks warrant a closer look. For one, the export recovery is not broad-based, almost entirely led by a brighter tech cycle. An earlier-than-expected release of Samsung's flagship smartphone also helps. While it is optimistic to see a nascent turn in the trade cycle, we remain cautious on the magnitude of such a rebound. Elsewhere, inflation remains largely in check, despite persistent upside risks.

BEPS Pillar II

As Vietnam enters the new year, a key policy focus is the impact of a minimum 15% corporate tax rate – to align with the international standard – on its FDI prospects, an area where Vietnam has consistently outperformed peers. While the details are still being finalised, the impact should be manageable. Not only are other regional competitors also working to introduce the same scheme, there are also a range of factors beyond tax incentives that also matter to investors. Overall, we expect Vietnam's economy to recover by 6.0% in 2024, returning to its normal growth trend.

Table 1. Summary of key recent economic indicators

	Oct 23	Nov 23	Dec 23
PMI	49.6	47.3	48.9
Exports (% y-o-y)	5.7	6.9	13.1
Imports (% y-o-y)	6.0	4.3	12.3
CPI (% y-o-y)	3.6	3.5	3.6
Manufacturing IP (% y-o-y)	-11.2	-7.5	-3.2

Source: CEIC, S&P Global, HSBC

This is a Free to View version of a report with the same title published on 9-Jan-24. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Issuer of report: The Hongkong and Shanghai Banking Corporation Limited

View HSBC Global Research at:
https://www.research.hsbc.com

Table 2. Vietnam's GDP profile

	% y-o-y				Contribution to GDP, ppt			
	1Q23	2Q23	3Q23	4Q23	1Q23	2Q23	3Q23	4Q23
GDP	**3.4**	**4.3**	**5.5**	**6.7**	**3.4**	**4.3**	**5.5**	**6.7**
Agriculture, Forestry and Fishery	**2.9**	**3.7**	**6.4**	**3.1**	**0.3**	**0.4**	**0.7**	**0.4**
Agriculture	2.9	3.7	6.9	3.7	0.2	0.3	0.5	0.3
Forestry	3.7	3.3	7.8	3.4	0.0	0.0	0.0	0.0
Fishery	2.9	3.7	4.9	0.9	0.1	0.1	0.1	0.0
Industry & Construction	**-0.4**	**2.1**	**4.9**	**7.7**	**-0.1**	**0.8**	**1.8**	**2.8**
Industry	-0.7	0.9	3.7	7.8	-0.2	0.3	1.1	2.3
Industry: Mining and Quarrying	-4.1	0.8	-7.3	2.9	-0.1	0.0	-0.2	0.1
Industry: Manufacturing	-0.5	0.6	5.1	8.1	-0.1	0.1	1.2	1.9
Industry: Electricity and Gas	-0.2	2.6	3.1	9.6	0.0	0.1	0.1	0.3
Industry: Water Supply, Waste Management	4.7	6.6	3.0	6.8	0.0	0.0	0.0	0.0
Construction	1.9	7.7	9.9	7.6	0.1	0.5	0.7	0.6
Services	**6.6**	**6.2**	**6.5**	**7.4**	**2.8**	**2.7**	**2.8**	**3.2**
Wholesale, Retail Sales & Motor Vehicles	8.0	8.0	9.4	11.8	0.8	0.7	0.8	1.0
Transportation & Storage	6.7	9.6	7.6	12.1	0.4	0.5	0.4	0.6
Accommodation & Food Service Activities	22.9	8.8	9.4	10.1	0.5	0.2	0.2	0.2
Information & Communication	1.3	3.9	4.0	2.9	0.1	0.2	0.2	0.2
Financial, Banking & Insurance Activities	7.8	6.1	6.9	4.4	0.4	0.3	0.4	0.3
Real Estate Activities	-0.7	-1.1	-0.1	5.3	0.0	0.0	0.0	0.2
Professional, Scientific & Tech Activities	6.7	5.8	6.0	6.5	0.2	0.2	0.2	0.2
Administrative & Support Service	16.8	11.0	13.7	6.4	0.2	0.2	0.2	0.1
Party, Public Administration, Organization	4.4	5.4	4.7	5.5	0.1	0.1	0.1	0.1
Education & Training	3.9	4.6	4.9	5.2	0.1	0.1	0.1	0.2
Human Health & Social Work Activities	-0.9	1.6	7.6	5.7	0.0	0.0	0.1	0.1
Arts, Entertainment & Recreation	12.7	9.7	0.8	13.0	0.1	0.1	0.0	0.1
Other Service Activities	11.5	9.7	8.7	5.9	0.1	0.1	0.0	0.0
Households Activities	4.2	4.8	5.5	5.6	0.0	0.0	0.0	0.0
Product Tax Excluding Product Subsidy / Implied errors & omission	**2.6**	**2.3**	**3.6**	**4.8**	**0.4**	**0.5**	**0.2**	**0.3**

Source: CEIC, HSBC

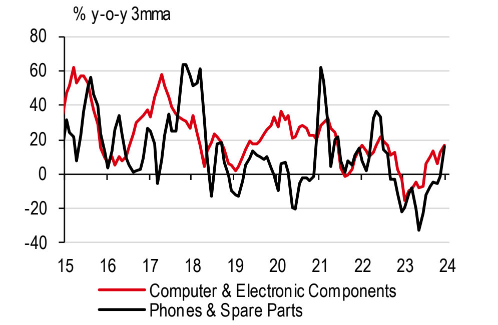
Time for growth normalisation

2023: Ended on an optimistic note

The Year of the Cat was not easy for Vietnam. Despite the rough waters, Vietnam ended 2023 relatively optimistic that 2024 is likely to be the year that Vietnam emerges strongly from mounting challenges. Vietnam's 4Q24 GDP expanded 6.7% y-o-y (Table 2), bringing full-year growth to 5.1% in 2023. This is in line with HSBC's forecast of 5.0%, which we have maintained since July 2023, which largely beat market expectations of 4.6%. If we dissect the indicators in various sectors, it's not difficult to see where the green shoots come from.

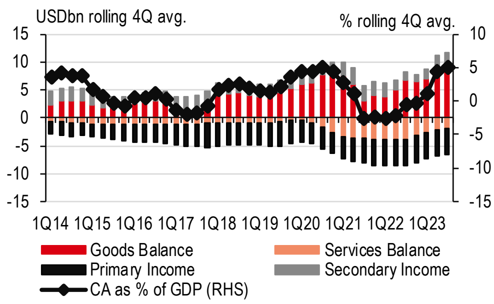
The **manufacturing** sector, one of Vietnam's key growth engines, saw a notable improvement in 2H23 from extreme sluggishness in 1H23. Despite moderating significantly from its historical average, and even slower than during the pandemic, manufacturing has shown positive signs of recovery (Table 2). This is particularly evident in the electronics sector.

Chart 1. Vietnam's electronics exports take the lead in recovering strongly…



Source: CEIC, HSBC

Chart 2. …contributing to a higher current account, on par with historical highs



Source: CEIC, HSBC

Indeed, the turn in the tech cycle has been quietly driving the recovery in Vietnam's **exports**. After falling by double-digits in 1H23, Vietnam has finally seen its exports grow close to double-digits again in 4Q23, largely led by rising electronics shipments. Its computer shipments took the first lead in the recovery in 3Q23, followed by phone exports (Chart 1). That being said, base effects have also come to the rescue, at least partially. Smartphone shipments rose over 50% y-o-y in December alone, but this reflects the preparations for an earlier-than-expected release of Samsung's Galaxy S24 series, due to be launched on 17 January 2024. Aside from electronics, machinery shipments have also started to recover, with sustained double-digit growth in Vietnam's booming agriculture exports.

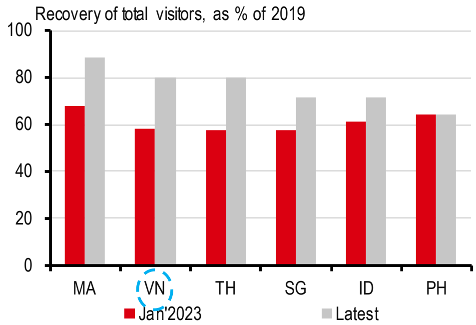
A gradual recovery in Vietnam's external sector brings good news for its **current account**, helping to defend the VND to some extent. After suffering from two consecutive years of *current account deficits*, Vietnam is finally on course to return to a *current account surplus*, and more importantly, it is quite sizeable. Thanks to resilient remittances, rising tourism receipts, and most importantly, improving trade dynamics in 2H23, the current account, measured on a four-quarter rolling basis, returned almost to 5% of GDP as of 3Q23, on par with its historical highs (Chart 2). Given a meaningful improvement in trade surplus in 4Q23, the trend is likely to be strengthened further.

Apart from an improving manufacturing sector, Vietnam's robust **services** continue to provide much-needed support to the economy. The sector expanded over 7% y-o-y in 4Q, mostly led by **tourism**-related sectors, including retail sales, transport, and accommodation. At a time of revenge travel post-pandemic, Vietnam has a reason to celebrate, as it has been named the world's leading heritage destination, for the fourth time. As the northern hemisphere has entered winter, a significant number of tourists have flocked to Vietnam's rich heritage sites, from the spectacular Ha Long Bay to the ancient town of Hoi An. The country is now leading ASEAN with a recovery rate of 80% of 2019's level (Chart 3).

But it is time to aim for a higher target. Given the positive development, Vietnam aims to lure 18m tourists in 2024, up from 12.6m in 2023, paving the way for its full return to 2019's level. What this means is that more effort is needed to attract Chinese tourists, who were once the largest source with 30% share. Alas, Chinese tourists have not returned to Southeast Asia as one expected at the start of 2023 (Chart 4). However, Vietnam is facing an **intense race** as regional peers are also vying for these Chinese tourists. Thailand and Malaysia have both implemented visa-free schemes for Chinese tourists since 4Q23, while Singapore has announced a similar scheme with details to be unveiled in the new year.

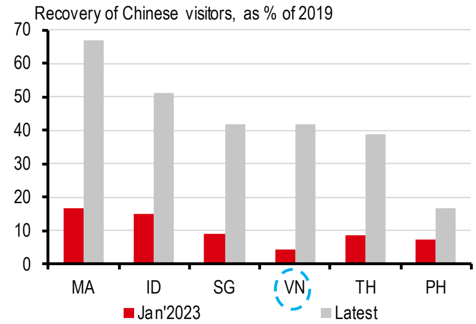
That being said, not all services sectors have enjoyed the same benefits as tourism. In fact, there has been a consistent divergence between tourism-led and non-tourism services. Despite a small improvement, real estate services remain weak, which could still face some challenges in repaying bonds in the new year. Growth in private consumption more than halved in 2023

Chart 3. Tourists have returned to 80% of the pre-pandemic's level in Vietnam



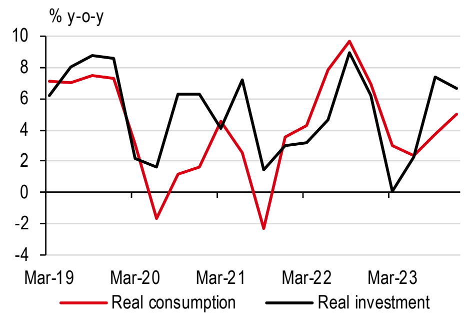
Note: VN/TH: Dec, MA: Sep, the rest = Nov.
Source: CEIC, HSBC

Chart 4. There is significant potential room to attract Chinese tourists



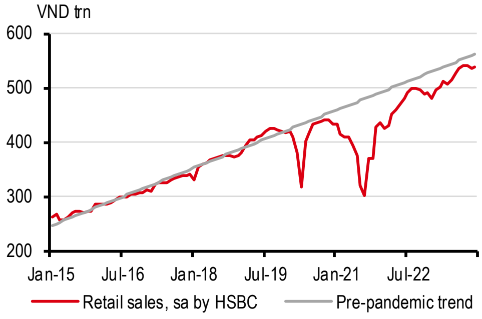
NB: VN/TH: Dec, MA: Sep, the rest = Nov.
Source: CEIC, HSBC

Chart 5. Both private consumption and investment slowed notably in 2023



Source: CEIC, HSBC estimates

Chart 6. Vietnam's retail sales are still 4% below pre-pandemic levels



Source: CEIC, HSBC

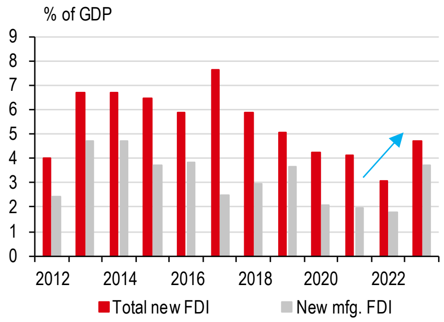
from its pre-pandemic trend of 7%, reflecting a confluence of factors such as the of spill-over of a sluggish trade sector, a weak property sector, and cautious consumer confidence in terms of the broad macro environment. After all, retail sales of goods are still 4% below what the pre-pandemic trend would imply (Chart 6).

This partially reflects a near-term **labour market** recovery. Albeit close, its unemployment rate and the labour force are still rebounding to pre-pandemic levels. While Vietnam's labour market has undergone structural changes in recent years, a long-term task is how to upskill the labour force, 25% of which remains in unskilled sectors, before its ageing problem becomes more apparent. Growth in its working-age population has slowed over the past decade and is expected to turn negative by 2038, according to UN population estimates, which is earlier than in other regional EM peers. This will raise questions about Vietnam 'growing older' before 'getting richer'. Fortunately, Vietnam has been leveraging its position as a magnet for FDI, especially from tech giants, with the aim to equip its labour force with relevant hi-tech training. Meanwhile, the emphasis on education is also a key focus. Looking at standardised PISA scores, Vietnam stands out in the region, just after Singapore.

2024: What to watch?

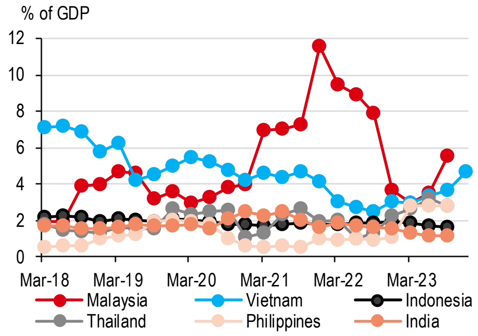
As Vietnam bids farewell to the challenges posed by the Year of the Cat, it is ushering in a more hopeful Year of the Dragon. The most important factor is the added capacity in trade from sustained FDI inflows, which provides hope for its external sector when the trade cycle turns. While the trade cycle is mostly a near-term consideration, FDI reflects the medium- to long-term confidence of investors.

Chart 7. Despite trade challenges, Vietnam continues to receive sizeable new FDI…



Source: CEIC, HSBC

Chart 8. …topping the region, just after Malaysia



Source: CEIC, HSBC

Vietnam has been widely regarded as the main beneficiary of US-China trade tensions, a trend that continues to hold. Both total and new FDI reached close to their respective historical highs in 2023, particularly with greenfield FDI jumping to a four-year-high of c5% of GDP (Chart 7). Notably, new manufacturing FDI soared to a new high of more than US15bn, 80% of which is concentrated in the manufacturing space. This continues to put Vietnam in a leading position in ASEAN, just behind Malaysia (Chart 8).

Looking at the source of FDI, one interesting trend is worth noting. Japan and Korea are both traditionally big investors in Vietnam, but China has been expanding its FDI footprint quickly in Vietnam. In fact, 2023 marks the first time that mainland China has the largest share among investors, beating its two neighbours. Combined, Greater China accounted for almost half of Vietnam's new FDI inflows in 2023. Not surprisingly, the lion's share went to electronics, a sector that Vietnam is fast becoming a rising star in. This is also an area where FDI inflows are more diversified, a reflection of Vietnam's increasing significance in the global tech supply chain (Table 3). Outside of electronics, investors are increasingly being drawn to Vietnam's promising consumer market, a trend heralded by Japanese corporates (*Vietnam at a glance: Japan-Vietnam: 50 years of economic ties*, 4 December 2023).

In terms of FDI, a key development to watch closely for in 2024 is the implementation of a minimum 15% corporate tax rate for multinational corporations (MNCs), effective 1 January. Recall, back in October 2021, more than 135 jurisdictions agreed to a two-pillar solution (Base Erosion Profit Shifting: BEPS) to reform the international tax framework to address the challenges from the taxation of the digital economy. Under BEPS Pillar II, MNCs with revenue of more than EUR750m (USD825m) are set for a global minimum tax at 15%. The EU and some other countries plan to introduce Pillar II from 2024 while others have signalled their willingness from 2025. In Vietnam, 122 foreign companies will face a steep rise in their tax costs, which is estimated to generate revenue worth USD600m per year (Reuters, 29 November 2023).

Long before the National Assembly's approval of the minimum corporate tax rate, concerns have been raised by MNCs operating in Vietnam. The most notable example is Samsung, who is of crucial importance to Vietnam's economy. It is not only the single largest foreign investor in Vietnam, with its exports alone expected to account for 13% of GDP in 2023 (*VNExpress*, 31 October 2023), but also three of its affiliates are in Vietnam's top 10 foreign taxpayers. Evidently, the tax hike is on Samsung's agenda, with high-level representatives having been sent to meet with policymakers in early 2023 (Nikkei, 3 April 2023).

While it may still be too early to evaluate the implications, the impact should be manageable, in our view. How the additional tax revenue will be managed as well as whether subsequent measures or other incentives will be introduced to offset the tax hike will be closely monitored. At the same time as the greenlighting of the tax hike, the authorities are also planning to work on specific incentives in 2024 (*Reuters*, 29 November 2023).

Table 3. Selected Vietnam's tech FDI projects

Year	Company	Origin	Product	Amount (USDm)	Where	When
2023	BOE	Mainland China	TV screens for Samsung and LG	400	Northern Vietnam	
2023	Sunny Optical	Mainland China	Optical production complex	2,500	Thai Nguyen	
2023	Quanta Computer	Taiwan	Computer factory	120	Nam Dinh	
2023	Hanmi Semiconductor	South Korea	Office		Bac Ninh	
2023	Infineon	Germany	Chip development center		Hanoi	
2023	Marvell	US	IC design center		HCMC	
2023	LG Innotek	South Korea	Expansion of smartphone camera module production	1,000	Haiphong	Mass production to begin in 2025
2023	Foxconn	Taiwan	Electric vehicle components + telecom components	250	Quang Ninh	Completed in 2024/2025
2023	Victory Giant Technology	Mainland China	Electronic component: printed circuit boards (PCB)	200	Bac Ninh	
2023	Sunrise Material	Singapore	Polymer wrap film	100	Nam Dinh	Construction start in 2024, first producсts in 4Q24?
2023	Inventec	Taiwan	Consumer electronics (Apple supplier)	125	Hanoi	Begin operations around end-2026 (3 years later)
2023	Hana Micron	South Korea	Semiconductor	400	Bac Giang	From current USD600m to USD1bn by 2025
2023	Amkor	US	Semiconductor	1,600	Bac Ninh	packing and testing of chips (systems-in-package/Sip)

Source: VNExpress, Reuters, Nikkei, HSBC

Chart 9. Vietnam's top 10 foreign taxpayers in 2022

Company	Parent headquarters
Honda	Japan
Samsung Electronics Vietnam Thai Nguyen	South Korea
Samsung Electronics Vietnam	South Korea
Unilever	UK
Heineken	Netherlands
Toyota	Japan
Shinhan Bank	South Korea
Hyundai	South Korea
Samsung Display	South Korea
CP	Thailand

Source: The Investor, HSBC

Chart 10. BEPS Pillar II developments in ASEAN

ASEAN	Expected implementation date
Indonesia	Pillar II announced
Malaysia	2025
Philippines	No public announcement yet
Singapore	2025
Thailand	2025
Vietnam	2024

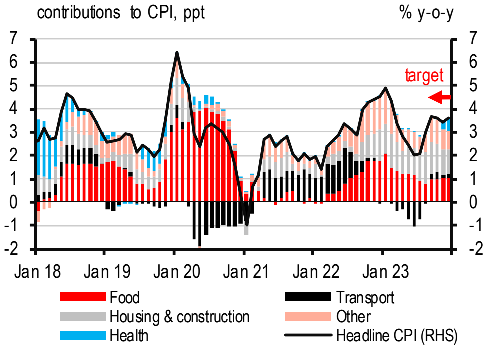
Source: PwC, HSBC

When it comes to investment decisions, tax is a key factor, but it is not the only factor in determining FDI inflows. It is thus important to improve on other metrics, such as infrastructure connectivity, the availability of a skilled workforce, the ease of doing business, and free trade agreements, to name a few. In addition, Vietnam is not the only country that is set to introduce a similar minimum tax rate. Its ASEAN peers are also working towards similar goals (Chart 10).

Elsewhere, **inflation** is also worth watching. Fortunately, Vietnam's inflation was under control in 2023, averaging 3.3%, which in line with our expectations (Chart 11). This leaves plenty of space below its inflation ceiling of 4.5%. We expect inflation to remain benign in 2024, with a forecast of 3.4%, well below the new inflation target of 4-4.5%. Despite the broad disinflation trend in Vietnam, price pressures have not faded completely. Upside risks to inflation from energy and food remain, particularly given Vietnam's sensitivity to these items as indicated by their sizeable weights in the inflation basket (Chart 12). In addition, the rise of healthcare costs warrants close attention, as Vietnam has resumed the changes in national medical service pricing after a period of four years. While maintaining an eye on upside risks to prices, we expect the SBV to keep its policy rate steady at 4.50% thorough 2024.

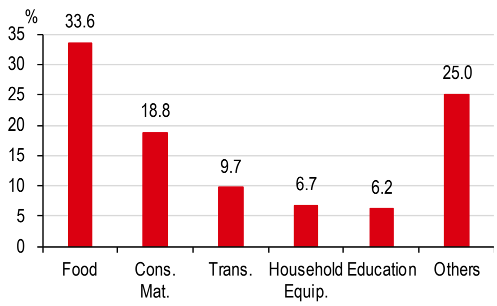
All in all, we believe Vietnam is on track for recovery, likely returning to its trend growth of 6.0% in 2024. As FDI inflows continue to add production capacity, Vietnam's manufacturing sector is experiencing the green shoots of a rebound, bringing opportunities for its exports. While it is key to watch how the minimum 15% corporate tax rate evolves, the impact should be manageable.

Chart 11. Vietnam's inflation remains well below the 4.5% ceiling



Source: CEIC, HSBC

Chart 12. Vietnam's CPI basket weights



Source: CEIC, HSBC

Disclosure appendix

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Yun Liu and Jun Takazawa

This document has been issued by the Research Department of HSBC.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at *www.hsbcnet.com/research*.

Additional disclosures

1 This report is dated as at 09 January 2024.

2 All market data included in this report are dated as at close 05 January 2024, unless a different date and/or a specific time of day is indicated in the report.

3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

Issuer of report
The Hongkong and Shanghai Banking Corporation Limited
.

[1226680]