

# Could Vietnam achieve 4% Inflation target?

Minh Trinh Viet

Associate – Macro

## HIGHLIGHTS

- **High inflation is wreaking havoc globally, yet Vietnam continues to enjoy a relatively low inflation rate thanks in part to its food independence and low exposure to imported inflation**
- **Do we have to worry about surging inflation in 2H2022?** Vietnam's inflation still maintained a low growth rate as average CPI for 1H2022 stood at 2.44% YoY. However, in upcoming months several exogenous factors could give a mixed result to our CPI in 2H2022

**Supportive moves to curtail high gasoline prices** in conjunction with stable oil prices globally towards yearend could help lower inflation in 2H2022. In addition, cooling commodity prices could also help offset upward pressure in 2H2022.

- **Overall, we maintain our expectation that CPI for 2022 will increase in range of 3.2% - 4.1% and remain around Government's target of 4%.**

Vietnam has so far been able to avoid surging inflation seen globally

CPI in H1 averaged 2.44%, lead by transportation and food costs

Most of the world is facing surging cost of living expenses as supply chains have been disjointed since the onset of COVID-19 and geopolitical tensions between Ukraine and Russia have intensified, causing price increases to key global commodities including fuel, fertilizer and wheat. However, there are pockets of the world which have been spared painful inflationary pressures, according to the Economist, East and South-East Asia seem to be the exception as inflation rates have remained relatively low.

The majority of upward pressure on Vietnam's CPI is coming from high oil prices globally which have resulted into high domestic gasoline price and in turn indirectly impacted other goods price in CPI basket. On average in 6M2022 food and energy CPI accounted for 1.93% of total 2.44% CPI in 6M2022. However, in upcoming months several exogenous factors could give a mixed result to our CPI in 2H2022.

To take a look at how Vietnam has been able to avoid the cost of living crises taking hold in much of the world we need to take a look at the composition of the CPI basket and how key categories have been affected so far in 2022 and what our outlook is from the remainder of the year.

CPI Basket	Weight (%)	Jun-22 (% m/m)	Jun-22 (% y/y)	Avg 6M2022 (% y/y)
<b>CPI headline</b>	<b>100</b>	<b>0.69%</b>	<b>3.37%</b>	<b>2.44%</b>
Food and Foodstuffs	33.6	0.80%	2.27%	0.89%
Food	3.7	0.16%	2.87%	2.32%
Foodstuff	21.3	0.98%	1.29%	-0.40%
Eating outside	8.6	0.65%	4.48%	3.50%
Housing and constrn. Materials	18.8	-0.01%	1.53%	2.01%
Transportation	9.7	3.62%	21.41%	17.43%
Household appliances & goods	6.7	0.31%	1.99%	1.55%
Education	6.2	0.07%	-2.13%	-2.82%
Garment, footwear	5.7	0.17%	1.49%	1.09%
Medicine, health care	5.4	0.03%	0.37%	0.31%
Culture, entertm't. & tourism	4.6	0.52%	3.40%	1.43%
Other goods, services	3.5	0.24%	2.21%	1.75%
Postal services, Telecom.	3.1	-0.16%	-0.50%	-0.55%
Beverage, cigarette	2.7	0.35%	3.22%	2.76%

Green: increase from previous respective period Red: decrease from previous respective period

## Food and Foodstuffs (33.6% of CPI Basket)

The largest category in the CPI basket is the Food and Foodstuffs category, which has yet to see surging prices due to several reasons including that Vietnam is fairly food independent, in that they do not require a large amount of imported food (in fact, Vietnam is a net exporter of agricultural products and fisheries products, according to statistical report by Ministry of Industry and Trade, exports from agriculture, forestry and fishery products reached USD13.08bn in 5M2022, +20.3% YoY and 8.5% of total export turnover, and net export of agriculture, forestry and fishery products reached USD5.1bn, +300% YoY) and the composition of the typical diet in Vietnam compared to Western countries, which is much more dominated by rice rather than wheat based products (which again, Vietnam is a net exporter of rice, rice export reached USD1.7bn in 6M20). Thus the risks of imported inflation having a significant impact on the biggest category within the CPI basket is quite subdued.

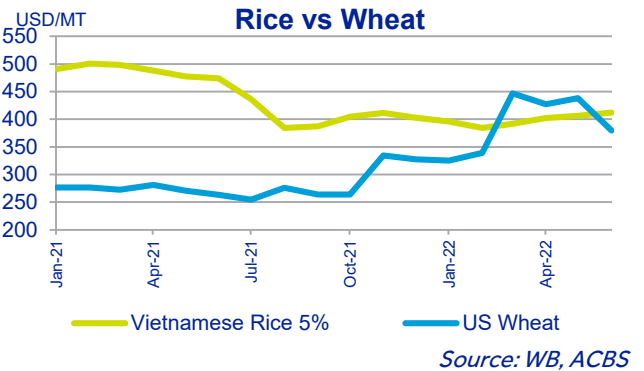
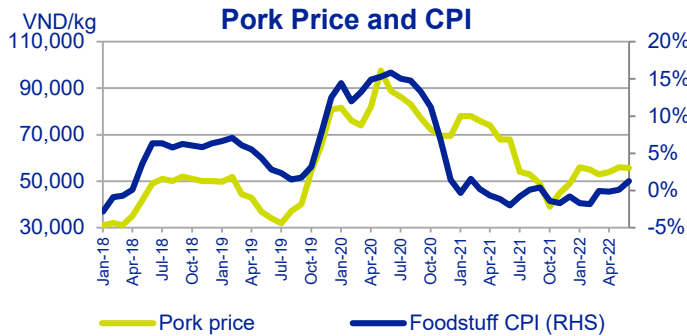
Risks of imported inflation causing surges in the Food and foodstuffs categories moderated by domestic food independence

Main staples of Vietnamese diet (rice and pork) expected to be

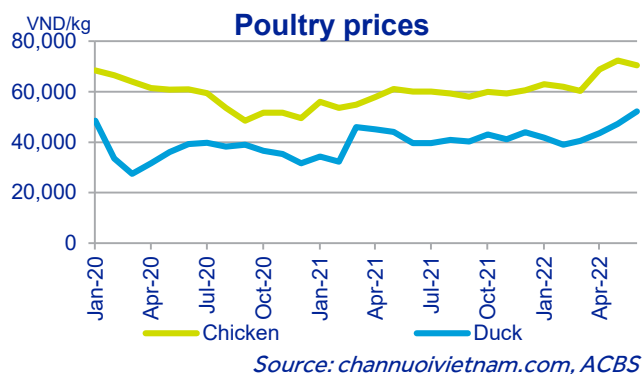
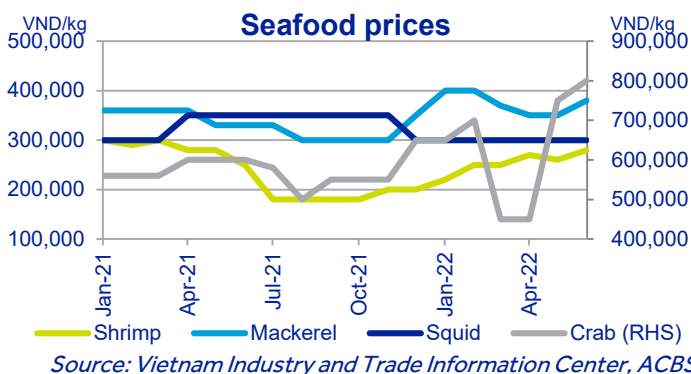
- + The main staples in the Vietnamese diet are rice (accounting for around 2.55% of the CPI basket) and pork (accounting for around 5% of the CPI basket). While the price of wheat and corn surged caused by geopolitical tension between Russia -

stable for remainder of  
2022

Ukraine, retail prices of rice in Vietnam remained steady increased just 1.09% YoY in 6M2022, contributed just only 0.03ppt to overall CPI in 6M2022. In addition, outbreak of African swine fever (ASF) from 2018 to 2021 caused surging pork prices during this time, which have subsequently fallen back sharply in 6M2022 as ASF being controlled and herds have been repopulated; pork prices in Vietnam decreased 25.4% YoY in 6M2022 (contributed to decrease 1.3ppt to overall CPI).

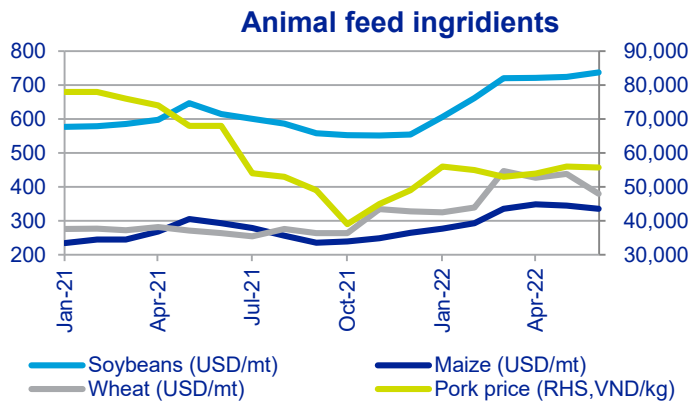


- + Besides the main staples, other foodstuff such as poultry and seafood have not shown any dramatic increases throughout 1H2022, thanks to our abundant food supply and independence from imports. Rising poultry and seafood is mainly due to rising input costs and transportation fee, there is no fear of scarcity or shortages, therefore we don't expect any dramatic surges in these prices.

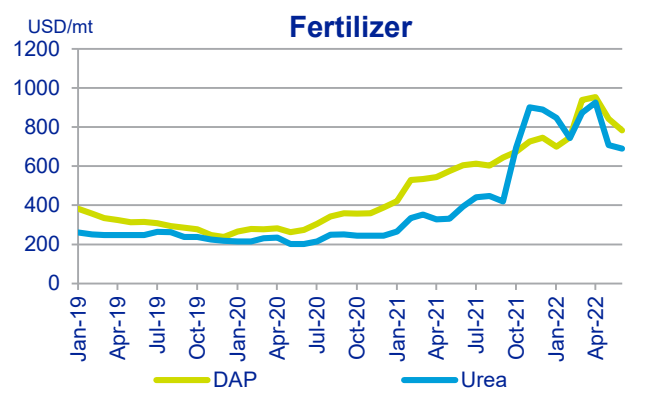


**Rising fertilizer prices could strain agricultural prices, but recent price movements indicate cooling market**

- + Recently, soaring fertilizer prices driven by high global energy price could put upward price pressures on our grain foods, leading to rising agriculture products prices especially rice price. In addition, high agricultural products prices might increase animal feed products price which would eventually make their way to higher pork and poultry prices. However, surging fertilizer and agricultural products price seem to slowed recently, and if they stay at this current level, we might see some easing of inflationary pressures in 2H2022.



Source: WB, ACBS

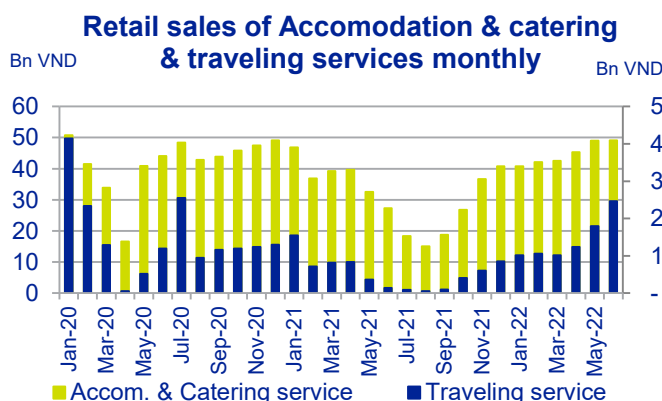


Source: WB, ACBS

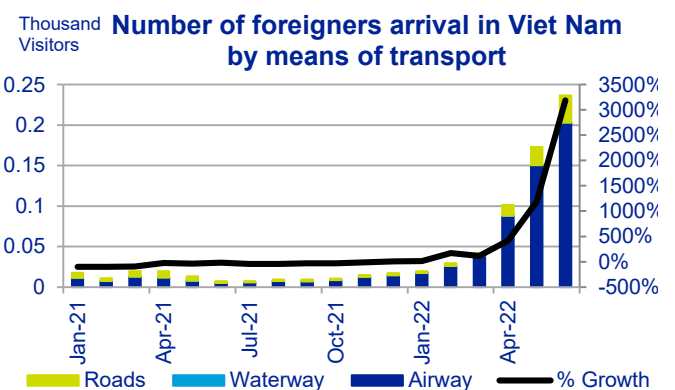
## H1 'Eating Outside' category muted as COVID-19 restrictions kept figured subdued in Q1

## Potential price pressures in H2 as international and domestic tourism market surges

- + Vietnam switched to living-with-COVID-19 strategy and opened up borders more slowly than countries in the West, which has helped dampen the effects of the 'eating outside' category of the CPI basket. Vietnam did not remove restrictions on all services business until the middle of January 2022, as a result CPI of outdoor eating and drinking service did not increased much during 1H2022 (avg. 1H2022 increased 3.5% YoY). In addition, Vietnam's government lifted restrictions on frequency of international flights from February 15 2022 and removed quarantine measures & reopen for international tourism starting from March 15, 2022.
- + Up until now, the indirect impact of high gasoline price and retail cooking oil on outdoor eating & drinking services and transportation fee seem to be low as outdoor eating & drinking CPI increased 3.5% YoY in 6M2022. So we expected that if oil price sustained at this high level, cost of outdoor eating & drinking services and transportation fee might pickup in 2H2022 if oil prices are sustained at a high level and in turn will put upward pressure on our CPI in 2H2022.



Source: GSO



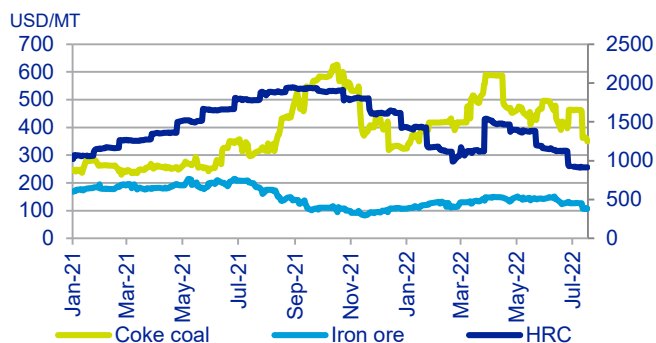
Source: GSO

## After heating up in Q1, construction material prices weaken on slumping demand in China

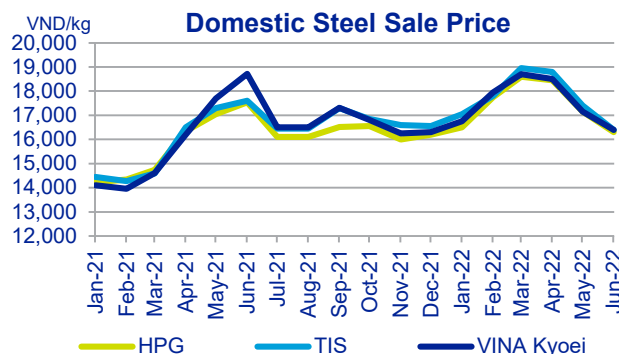
## Housing and Construction Materials (18.8% of CPI Basket)

The next largest category in the CPI basket is the Housing and Construction Materials, which has seen an average increase of just over 2% in the first half of 2022. While several commodities have seen prices increases in the first half of the year (i.e. steel), our expectations are that construction materials in general will be stable or on the downtrend in the second half of the year. China, the largest global consumer of construction materials, has seen a slow down in their construction sector due to continued lockdowns in key cities as they follow the zero-COVID policy that has delayed or shut down many construction projects as well as policies put in place by the government to prevent an overheating of the

property sector such as limiting credit to real estate consumers and developers, which will have the effect of tempering many construction materials prices globally and thus we're not expecting much pressure in H2 from the Housing and Construction Materials category. *[more detailed thoughts and outlook for commodities available in our [Q2 2022 Commodities report](#)]*



Source: Bloomberg, ACBS



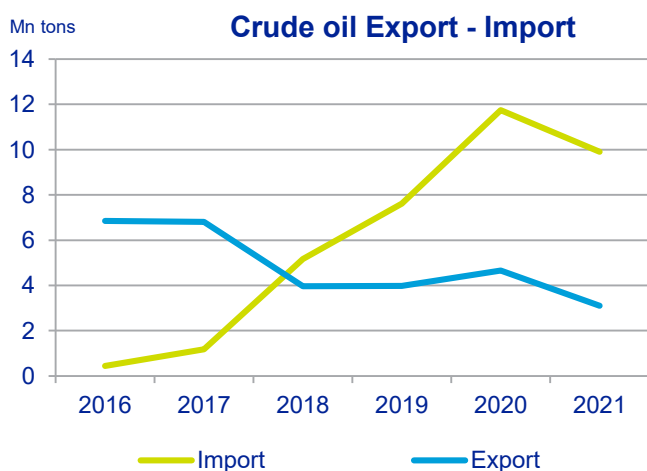
Source: FiinPro, ACBS

## Transportation (9.7% of CPI basket)

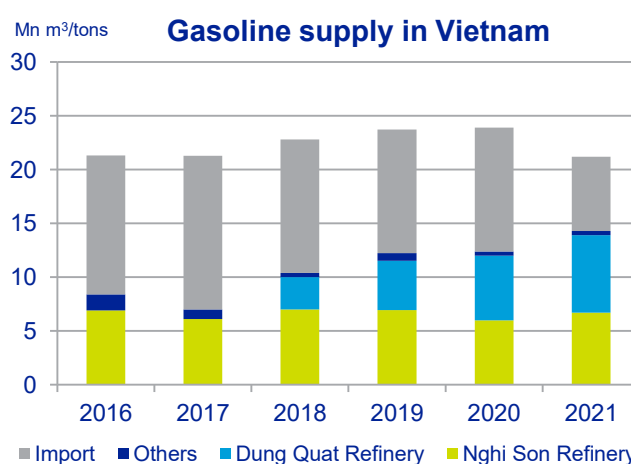
**Oil and gasoline prices are a key exposure to imported inflation risks to Vietnam**

**Gasoline prices down 21% from peak in June; still up 11.9% YTD**

This category is most susceptible to global commodities price movements. Although Vietnam could supply around 70% of domestic petroleum mainly made by Nghi Son refinery and Dung Quat refinery, Vietnam still have to import crude oil (9.9mn tons in 2021) for gasoline refinery as Nghi Son refinery have to use imported oil to make gasoline. The recent escalating oil prices have predominantly been attributed to the impact of the resumption of production activities after COVID-19 and geopolitical tensions and resulting sanctions from the Russian invasion of Ukraine. However, to battle with rising gasoline price caused by surging oil price, government have approved two environmental tax cut (2.000VND on 1st April and 1.000VND on 11st July). Besides that, government also consider lowering the value-added tax and special consumption tax on gasoline. Domestic gasoline prices have peaked on 21 June which reached 32.870VND/liter (+41.1% YTD)<sup>1</sup>, however in July there have been 3 successive price cuts to retail gasoline prices to bring the price at the pump down 21% from its peak and reaching a five month low. The effect could ease gasoline prices in 2H2022, which will help lower upward pressure on CPI in 2H2022.



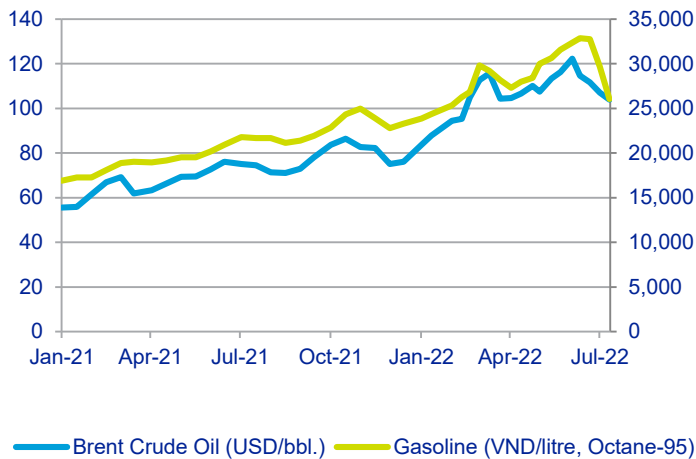
Source: Vietnam Customs



Source: ACBS, PV Oil Phú Mỹ, Saigon Petro

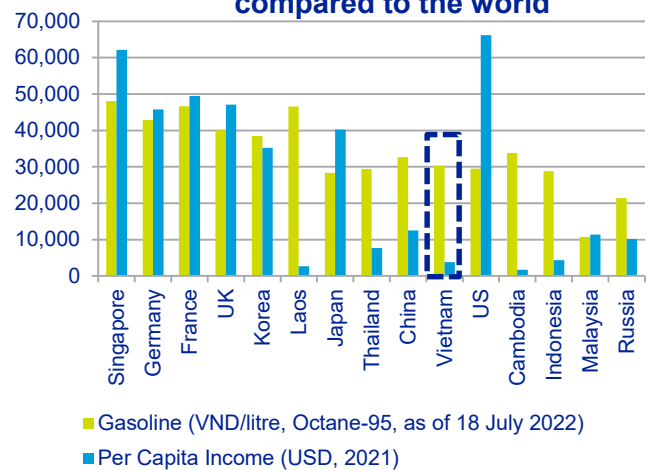
<sup>1</sup> As of 21/06/22

**Oil vs Domestic gasoline price**



Source: Bloomberg, ACBS

**Price of gasoline in Vietnam compared to the world**



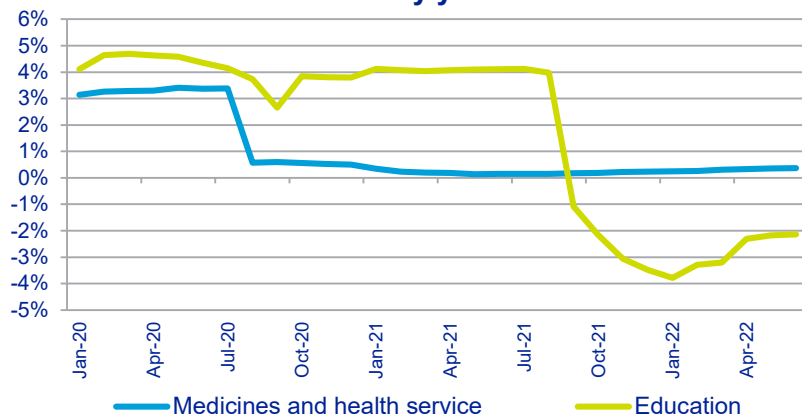
Source: WB, Global petrol prices

## Strong price regulations of education and healthcare services mitigate inflationary risks in 2022

### Education, Medicine & Healthcare services (11.6% of CPI basket combined)

The fourth and fifth largest contributors to CPI was mainly educational services fee and healthcare services fee which controlled by government. In meeting on price management of important and essential commodities chaired by Deputy Prime Minister Le Minh Kha on 13 June, Deputy Minister of Education and Training Pham Ngoc Thuong said that they will maintain the educational services fees for school year 2022-2023. In addition, Deputy Prime Minister also acknowledged that there will be no increase in healthcare services fees this year. As a result, we expected that these two categories won't result in any major increases to the CPI in 2H2022.

**CPI y/y**





## Scenarios for the remainder of 2022

We have projected a few inflation scenarios in which we think might happen in 2H2022 with the extreme bad case which our overall FY2022 CPI reach 4.1% YoY follow surging pork price in conjunction rising oil price.

		CPI		
		Peak	2H2022	FY2022
<b>Peaked Inflation</b>	<b>Key Assumption:</b> <ul style="list-style-type: none"> <li>+ Average pork price reach as high as 72.000/kg in 2H22</li> <li>+ Average rice price and livestock price increased another 0.5% in 2H22</li> <li>+ Home maintenance materials decreased 0.75% in 2H22</li> <li>+ Oil prices stay at this current level (c. 100 USD/barrel)</li> </ul>	<b>5.5%</b>	<b>4.0%</b>	<b>3.2%</b>
<b>Sustain high Inflation</b>	<b>Key Assumption:</b> <ul style="list-style-type: none"> <li>+ Average pork price reach as high as 78.000/kg in 2H22</li> <li>+ Average rice price and livestock price increased another 0.75% in 2H22</li> <li>+ Home maintenance material remain stable in 2H22</li> <li>+ Oil price increased another 15% by yearend (115 USD/barrel)</li> </ul>	<b>7.2%</b>	<b>4.9%</b>	<b>3.7%</b>
<b>Surging Inflation</b>	<b>Key Assumption:</b> <ul style="list-style-type: none"> <li>+ Average pork price reach as high as 82.000/kg in 2H22</li> <li>+ Average rice price and livestock price increased another 1% in 2H22</li> <li>+ Home maintenance material increased 1% in 2H22</li> <li>+ Oil price increased another 20-25% by yearend (120-125 USD/barrel)</li> </ul>	<b>8.3%</b>	<b>5.7%</b>	<b>4.1%</b>

**Overall, we remained our expectation of CPI for 2022 will increase in range of 3.2% - 4.1% and remain around Government's target of 4%.**

## CONTACTS

### Ho Chi Minh City Head Office

41, Mac Dinh Chi, Dist. 1, Ho Chi Minh City  
Tel: (+84 28) 3823 4159  
Fax: (+84 28) 3823 5060

### Hanoi Office

10 Phan Chu Trinh, HoanKiem Dist., Ha Noi  
Tel: (+84 24) 3942 9395  
Fax: (+84 24)3942 9407

## RESEARCH DEPARTMENT

### Director - Head of Research

**Tyler Cheung**  
(+84 28) 38 234 876  
[tyler@acbs.com.vn](mailto:tyler@acbs.com.vn)

### Associate Director

**Gigi Nguyen Binh**  
(+84 28) 3823 4159 (x250)  
[gjaonbt@acbs.com.vn](mailto:gjaonbt@acbs.com.vn)

#### Manager- Property Truc Pham

(+84 28) 3823 4159 (x303)  
[trucptt@acbs.com.vn](mailto:trucptt@acbs.com.vn)

#### Manager- Financials Hung Cao

(+84 28) 3823 4159 (x326)  
[hungcv@acbs.com.vn](mailto:hungcv@acbs.com.vn)

#### Associate – Consumer- related, Technology Chi Luong

(+84 28) 3823 4159 (x327)  
[chiltk@acbs.com.vn](mailto:chiltk@acbs.com.vn)

#### Associate- Oil & Gas Hung Phan

(+84 28) 38234159 (x354)  
[hungpv@acbs.com.vn](mailto:hungpv@acbs.com.vn)

#### Associate – Consumer-related, Media

**Trung Tran**  
(+84 28) 3823 4159 (x351)  
[trungtn@acbs.com.vn](mailto:trungtn@acbs.com.vn)

#### Associate – Construction materials

**Huy Huynh**  
(+84 28) 3823 4159 (x325)  
[huyha@acbs.com.vn](mailto:huyha@acbs.com.vn)

#### Associate – Energy Toan Pham

(+84 28) 3823 4159 (x325)  
[toanpd@acbs.com.vn](mailto:toanpd@acbs.com.vn)

#### Associate –Macro Hoa Nguyen

(+84 28) 3823 4159 (x352)  
[hoant@acbs.com.vn](mailto:hoant@acbs.com.vn)

#### Associate – Macro Minh Trinh

(+84 28) 3823 4159 (x352)  
[minhtvh@acbs.com.vn](mailto:minhtvh@acbs.com.vn)

#### Analyst – Technical Phuoc Luong

(+84 28) 3823 4159 (x354)  
[phuocld@acbs.com.vn](mailto:phuocld@acbs.com.vn)

#### Analyst – Technical Huu Vo

(+84 28) 3823 4159 (x354)  
[huvvp@acbs.com.vn](mailto:huvvp@acbs.com.vn)

### Associate Director – Institutional sales

**Huong Chu**  
(+84 28) 3824 6679  
[huongctk@acbs.com.vn](mailto:huongctk@acbs.com.vn)

#### Customer Support Institutional Client

**Thanh Le**  
(+84 28) 3823 4798  
[thanhln@acbs.com.vn](mailto:thanhln@acbs.com.vn)

#### Trader

**Thanh Tran**  
(+84 28) 3824 7677  
[thanhtt@acbs.com.vn](mailto:thanhtt@acbs.com.vn)

#### Trader

**Phuong Chu**  
(+84 28) 3823 4159 (x357)  
[phuongctm@acbs.com.vn](mailto:phuongctm@acbs.com.vn)

#### Trader

**Dung Ly**  
(+84 28) 3823 4159 (x313)  
[dungln.hso@acbs.com.vn](mailto:dungln.hso@acbs.com.vn)

#### Trader

**Nhi Nguyen**  
(+84 28) 3823 4159 (x315)  
[nhinp@acbs.com.vn](mailto:nhinp@acbs.com.vn)



## DISCLAIMER

### Analyst Certification(s)

We, the author(s) of this report, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

### Important Disclosures

ACBS and/or an affiliate thereof (hereby collectively called ACBS) did or may seek to do business with companies covered in this report as its routine business. ACBS's proprietary trading accounts may have a position in such companies' securities. As a result, the investor should be aware that ACBS may have a conflict of interest from time to time.

ACBS produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

### Disclaimer

This report is provided for information purposes only. ACBS makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this report. ACBS will not treat unauthorized recipients of this report as its clients. Prices shown (if any) are indicative and ACBS is not offering to buy or sell or soliciting offers to buy or sell any financial instrument. **Without limiting any of the foregoing and to the extent permitted by law, in no event shall ACBS, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this report or its contents.** Other than disclosures relating to ACBS, the information contained in this report has been obtained from sources that ACBS believes to be reliable, but ACBS does not represent or warrant that it is accurate or complete. The views in this report are subject to change, and ACBS has no obligation to update its opinions or the information in this report.

**Some parts of this report reflect the assumptions, views and analytical methods of the analysts who prepared them, and ACBS is not responsible for any error of their works and assumptions. ACBS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report.**

The analyst recommendations in this report reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of ACBS. This report does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the investors who receive it. The securities discussed herein may not be suitable for all investors. ACBS recommends that investors independently evaluate each issuer, securities or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

**This report may not be distributed to the public media or used by the public media without prior written consent of ACBS. Otherwise it will be considered as illegal. The breacher shall compensate fully to ACBS any loss or damage which arises from such breach (if any).**

In the event that the distribution and/or receipt of this report is prohibited by the investor's jurisdiction, the investor shall dismiss this report immediately otherwise it will be at his/her own risks.

ACBS does not provide tax advice and nothing contained herein should be construed to be tax advice. Accordingly, the investors should seek advice based on their particular circumstances from an independent tax advisor. This report may contain links to third-party websites. ACBS is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by ACBS. Access to any third-party website is at the investor's own risks, and the investor should always review the terms and privacy policies at third-party websites before submitting any personal information to them. ACBS is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

© Copyright ACBS (2022). All rights reserved. No part of this report may be reproduced in any manner without the prior written permission of ACBS.