

Lumen Vietnam Fund – October 2024 Mid-Month Update

Lumen Vietnam Fund - Macro Outlook

We anticipate Vietnam's GDP growth of 6.5% - 7% for 2024 and 2025, mostly driven by strong accelerating public investments, strong domestic consumption and solid exports. The key drivers during this period include are:

- **Accelerating public investments:** We anticipate substantial disbursements for major infrastructure projects by the end of the year, which will drive GDP growth in 4Q2024. This momentum is expected to be carried into 2025 as policy obstacles, land clearance, and material supply issues are progressively resolved.
- **Strong consumption:** Consumption is on an upward trajectory, evidenced by strengthening consumer confidence, higher-than-expected sales growth of consumer companies seen in the first nine months 2024, and greater retail sales growth.
- **Stabilization of Foreign Exchange (FX):** We foresee reduced FX pressure for the remainder of the year, supported by resilient FDI inflows and a continued recovery in exports. Additionally, the anticipated Fed rate cut will provide external support, giving Vietnam more leeway in its monetary policy.
- **A stable political environment:** The country appointed a new General Secretary of the Communist Party of Vietnam (CPV) in August. Since then, the internal political tensions that occurred before the selection of the CPV's top leader have been diminishing. The position of the new CPV chief is now consolidated, and several key government positions have been newly appointed.
- **New important laws are coming into effect:** The much-anticipated Amended Land Law, Housing Law, and Real Estate Business Law all came into effect on August 1, 2024, five months earlier than previously scheduled. These regulations help resolve several legal obstacles, stimulating the property sector by encouraging greater supply.

Additionally, the government and National Assembly have been quite active recently in accelerating approvals and reforms of several key laws and regulations. These improvements in legislation and legal frameworks will support the long-term development of the entire economy.

Lumen Vietnam Fund - Macro Update

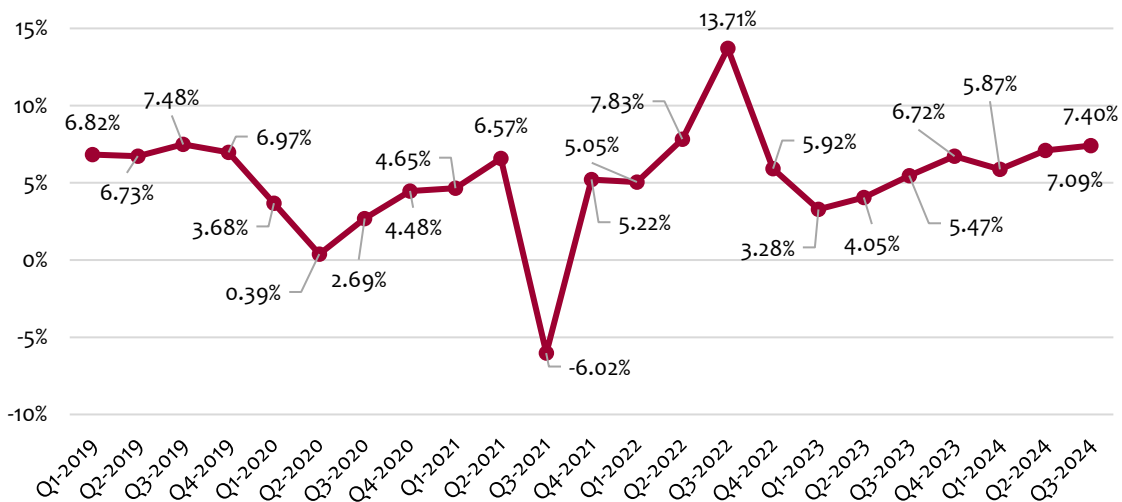
September 2024 macroeconomic data has highlighted the GDP growth of 7.4% YoY in 3Q2024, primarily driven by the robust industry sector (+8.2% YoY), while import and export activities continued to show strong double-digit growth. Although GDP growth in the third quarter was affected by Typhoon Yagi, the impact was minimal and short-lived. Foreign direct investment (FDI) inflows, particularly in the manufacturing sector, remained strong, demonstrating solid investor confidence in Vietnam's investment climate.

1. GDP

Vietnam’s GDP grew strongly by 7.4% YoY in 3Q2024, even higher than the revised growth of 7.1% in 2Q2024 and marking a new record high since 4Q2022. As a result, 9M2024 GDP growth reached +6.8% YoY.

The industry and construction sector continued to drive growth, increasing 9.1% YoY in 3Q2024 and 8.2% YoY in 9M2024, in which the manufacturing sub-sector increased +9.8% YoY given the robust external demand. Typhoon Yagi had an impact on the agriculture, forestry & fishery sector, which slowed the growth to +2.6% in 3Q2024 (down from 3.6% in 2Q2024). Meanwhile, the services sector experienced moderate growth (+6.9% YoY), with slight improvements observed in important sub-sectors such as retail sales (+8.0% YoY), transportation & storage (+11.1% YoY), accommodation & catering (+8.7% YoY) and finance (+8.4% YoY) during 3Q2024.

Figure 1: Quarterly GDP Growth

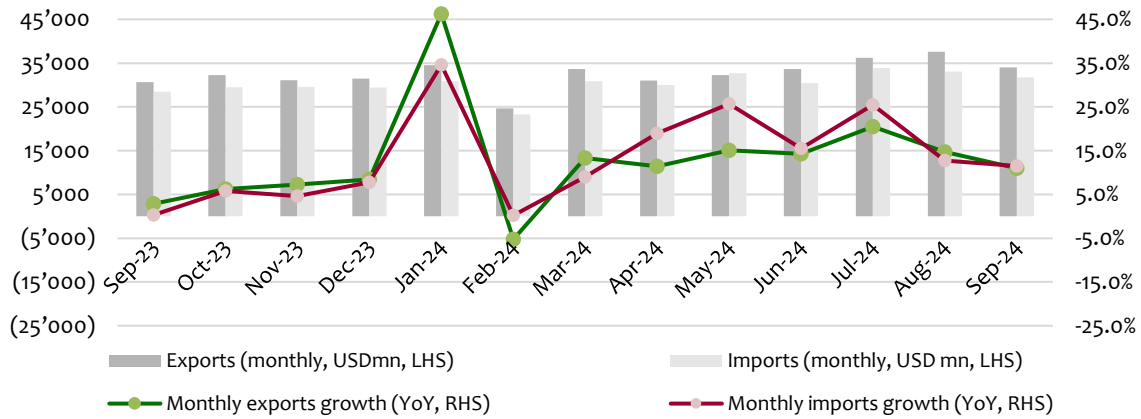


Source: General Statistics Office of Vietnam (GSO), FiinPro as of 30 September 2024

2. Trade Activities

On the external front, Vietnam recorded a trade surplus of USD 2.3bn in September 2024, bringing the total trade surplus to USD 20.8bn for 9M2024. Although Typhoon Yagi temporarily affected manufacturing and foreign trade activities, resulting in slower export and import growth in September, overall export and import growth during the third quarter outpaced that of the first half of the year. Consequently, exports grew by 15.4% YoY, while imports increased by 17.3% YoY for the first nine months of 2024. Key drivers of this export growth were electronics (+27.4% YoY), machinery and equipment (+22.1% YoY), wood products (+21.5% YoY), and several agricultural products. During the first nine months of 2024, the US remained Vietnam's top export market, with an export value of USD 89.4bn and the fastest growth rate at 27.4% YoY, followed by the EU (+17.0% YoY) and ASEAN countries (+13.0% YoY).

Figure 2: Monthly trade activities

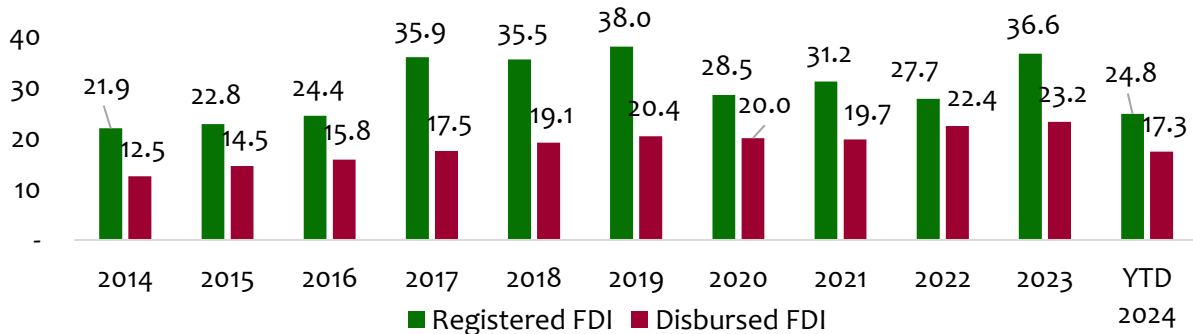


Source: General Statistics Office of Vietnam (GSO) as of 30 September 2024

3. Foreign Direct Investment (FDI)

On the investment side, 9M2024 registered and disbursed FDI maintained robust momentum with total value of USD25bn (+11.6% YoY) and USD17.3bn (+8.8% YoY), respectively. In the first 9 months of 2024, the manufacturing & processing sector continued to attract the most FDI, with total registration of USD 15.6bn, equivalent to 63.1% of total registered FDI. In 9M2024, Singapore was the leading registered FDI country with USD4.8bn, equivalent to 35.4% of total registered FDI to Vietnam. China and Hong Kong placed second and third position, weighting 13.8% and 11.5%, respectively.

Figure 3: Registered and disbursed FDIs (USD bn)



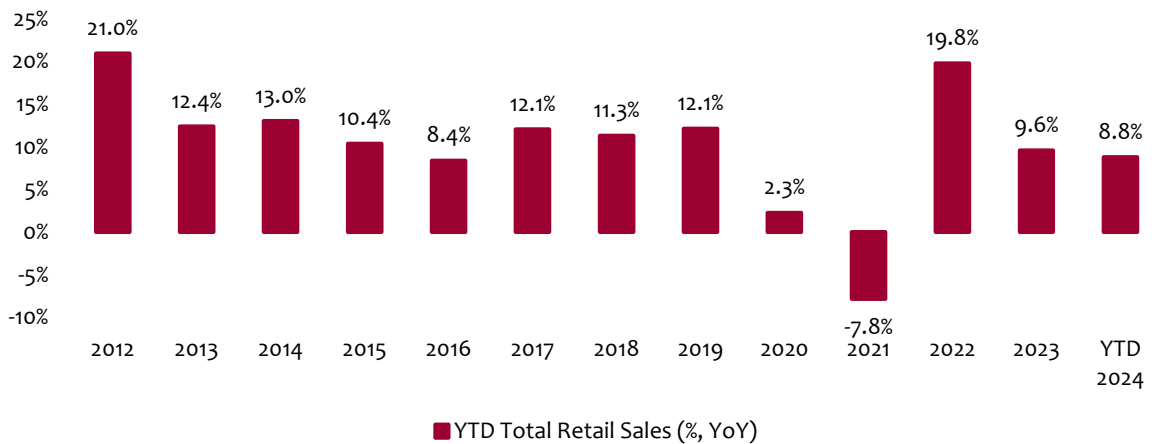
Source: GSO as of 30 September 2024

4. Retail Sales

On the demand side, retail sales of goods and services in September 2024 reached USD 21.6bn (+7.6% YoY), resulting in 9M2024 retail sales growth of 8.8%. The 9M2024 growth was mainly supported by the hotel and restaurant sector (+13.6% YoY) and the tourism sector (up +16.7% YoY). The number of international tourists to Vietnam increased 20.9%

YoY in September 2024, leading to 9M2024 growth of 43% YoY. Among the top three markets, South Korea held the leading position with 356,000 arrivals (+15% YoY), following by China with 257,000 arrivals (+49% YoY) and Taiwan (+35% YoY).

Figure 4: Retail sales (YTD, YoY)



Source: GSO as of 30 September 2024

5. The Manufacturing Purchasing Managers' Index (PMI)

The Vietnam Manufacturing Purchasing Managers' Index (PMI) reduced from 52.4 in August to 47.3 in September 2024 due to the short-term impact of typhoon Yagi. Typhoon Yagi brought heavy rainfall and flooding to northern Vietnam, resulting in temporary business closures and delays in production and supply chains. Consequently, there was a drop in output, new orders, purchasing activity, and inventories. The recent survey by S&P Global indicates that firms remain optimistic about future demand and production, reflected by higher recruitment activities in September.

Figure 5: Vietnam Manufacturing Purchasing Managers' Index (PMI)

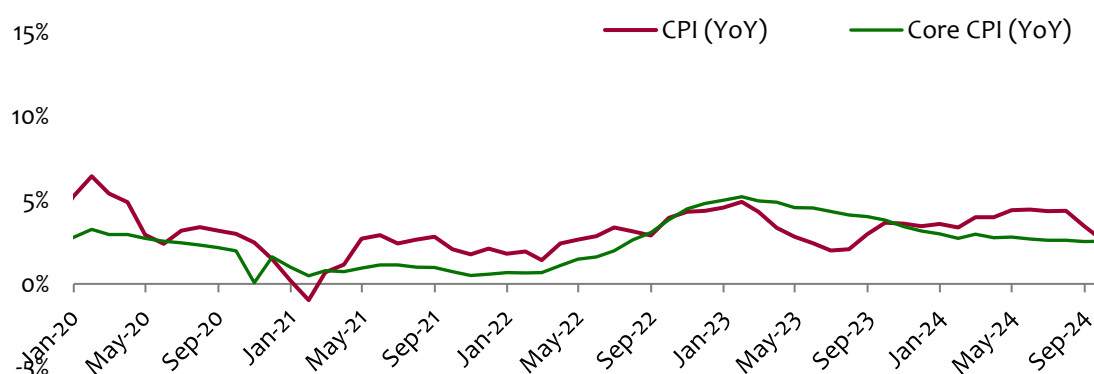


Source: Bloomberg, S&P Global as of 30 September 2024

6. Inflation

Regarding inflation, September CPI further decelerated to only +2.63% YoY down from 3.5% YoY in the previous month. As a result, the 9M2024 CPI averaged +3.9%, remaining below the Government's target of 4-4.5%. 9M2024 inflation driver were mainly attributed to medical services (+7.5% YoY), education (+7.5% YoY), and accommodation and construction materials (+5.3% YoY). Due to recent increase in oil prices and seasonal factors, inflation is likely to inch up in the remaining months of the year, however, it is expected to stay below 4% by the end of 2024.

Figure 6: Headline and Core CPI



Source: GSO as of 30 September 2024

7. Public Investment and Fiscal Policy

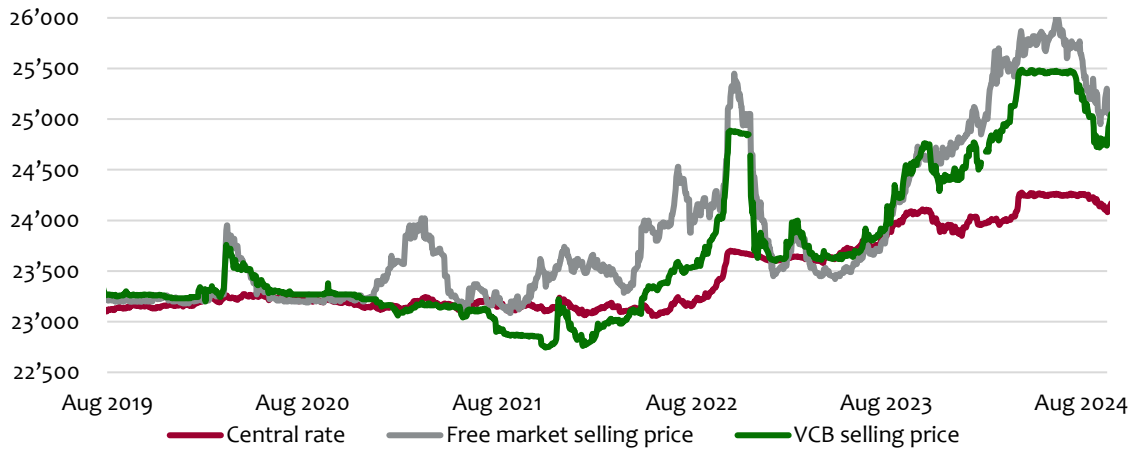
For the first 9 months of 2024, public investment disbursement in Vietnam reached VND320.5tn (USD 12.9bn), which accounts for 47.3% of the full-year target (vs 46.7% for the same period last year). Public investment had slowed down in September due to the impact of typhoon Yagi. In recent meetings, the Government emphasized the priority of accelerating the public investment pace toward year-end, which is the key driver for GDP growth in the last quarter of 2024.

Fiscal Policy: Collected budget revenue and budget expenditures are estimated to have reached 85.1% and 59.1% of the FY2024 plan, respectively, according to Decision 2715 of the Ministry of Finance. As a result, the state budget recorded a surplus of VND 191.9tn in the first nine months of 2024, compared to the planned FY2024 deficit of VND 399.4tn. Additionally, with public debt to GDP at a low level of around 37%, the Vietnamese government has more room to increase public investment.

8. Monetary Policy and Foreign Exchange Situation

The pressure on the Vietnamese Dong (VND) has continued to ease in September 2024, with the VND strengthening against the USD by further 1.2% in this month. This narrowed the YTD depreciation of the VND against the USD to 1.3% by the end of September 2024. Given the recent rate cut from FED, the FX pressure may be more relaxed toward year-end.

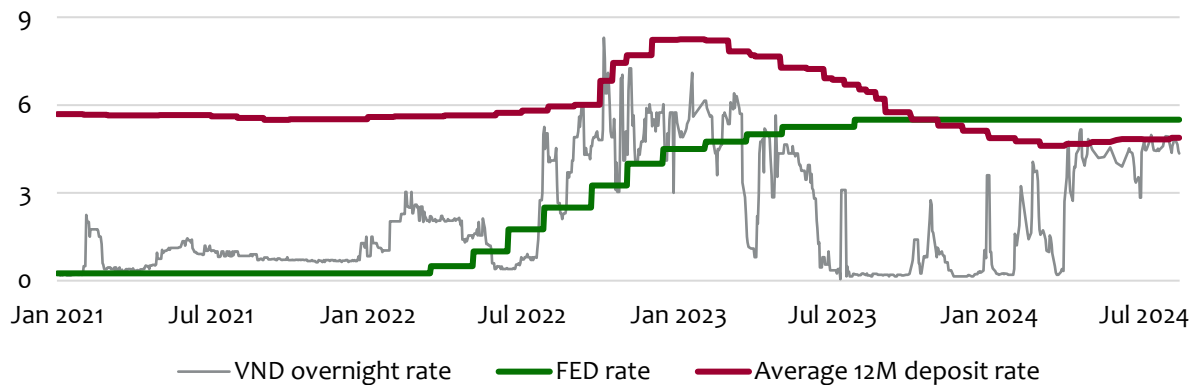
Figure 7: USD/VND Exchange rate



Source: FiinPro as of 30 September 2024

Interbank rates stay healthy around 4% in September 2024 while deposit rate recorded insignificant changes in recent months, remaining close to all-time low level (as of 1Q2024). Per VNHAM research observation, domestic banks plan for 50bps increase for deposit rate in late 2024 to follow the high credit demand toward year-end.

Figure 8: Interest rate comparison



Source: Bloomberg, Fiinpro, SBV, VNHAM research

Appendix: Vietnam Macro Key Indicators

Macro indicators	2019	2020	2021	2022	2023	2024F	2025F
Population and GDP							
Population (avg., mn)	96.5	97.6	98.5	99.5	100.4	101.4	102.3
Nominal GDP (USD bn)	332.7	346.3	363.8	409.6	429.7	475.0	523.4
Real GDP growth (%)	7.0	2.9	2.6	8.0	5.1	6.7	6.7
Trade and Service growth (%)	7.3	2.3	1.1	10.0	6.4	7.1	7.1
Agricultural growth (%)	2.0	2.7	2.9	3.4	3.6	3.0	3.0
Industrials and construction growth (%)	8.9	4.0	4.3	7.8	4.5	7.7	7.7
Retail sales growth (%)	11.3	-0.9	-3.9	19.2	9.2	8.8	9.3
Prices							
Consumer price inflation (year-end)	5.2	0.2	1.9	4.5	3.5	3.9	3.5
Money, FX & Interest rates							
Credit growth (avg.,% YoY)	13.0	11.0	13.6	14.5	13.7	14.0	14.0
Broad money supply M2 (avg.,% YoY)	14.8	14.5	10.7	6.2	12.5	11.0	12.0
Avg. 12M deposit rate (%)	7.3	6.3	5.5	6.0	6.5	5.0	5.2
Avg. lending rate (%)	8.1	7.7	7.0	7.4	8.2	7.3	7.6
5-yr VGB yields (year-end, %)	1.9	0.0	1.0	4.7	1.7	2.0	2.0
USD/VND (year-end)	23,173	23,070	22,825	23,610	24,260	24,988	25,113
USD/VND (avg.)	23,228	23,233	22,931	23,425	23,839	24,624	24,747
Foreign Trade							
Total trade of goods(USD bn)	507.2	534.6	656.7	716.9	665.7	774.9	891.1
Total trade (% GDP)	152.4	154.4	180.5	175.0	154.9	163.1	170.3
Total exports (USDbn)	264.2	282.6	336.2	371.3	353.9	407.0	468.1
Exports growth (% YoY)	8.4	7.0	18.9	10.5	-4.7	15.0	15.0
Total imports (USDbn)	243.0	251.9	320.5	345.6	311.8	367.9	423.1
Imports growth (% YoY)	7.0	3.7	27.2	7.8	-9.8	18.0	15.0
Trade balance of goods (USD bn)	21.2	30.7	15.7	25.7	42.2	39.1	45.0
FDI, Balance of Payment							
Current-account balance (USD bn)	12.2	15.1	-8.2	-1.1	25.7	20.4	24.5
Current-account balance (% of GDP)	3.7	4.3	-2.2	-0.3	6.0	4.3	4.7
Personal remittance (USD bn)	16.7	17.2	12.5	19.0	19.0	19.9	20.9
FDI registered (USD bn)	38.0	28.5	31.2	27.7	36.6	40.3	44.3
FDI disbursement (USD bn)	20.4	20.0	19.7	22.4	23.2	25.0	27.0
BOP (USD bn)	23.3	16.6	14.3	-22.7	5.6	2.1	6.3
BOP (% GDP)	7.0	4.8	3.9	-5.6	1.3	0.5	1.2
Grand official reserves (USD bn)	78.8	95.4	109.7	87.0	92.6	94.7	101.0
Fiscal Policy, Solvency indicators							
External debt (USD bn)	117.3	125.0	139.5	144.7	163.7	166.3	183.2
External debt (% GDP)	35.3	36.1	38.4	35.3	38.1	35.0	35.0
Public debt (USD bn)	144.7	161.7	156.8	176.5	159.0	180.5	209.4
Public debt (% GDP)	43.5	46.7	43.1	43.1	37.0	38.0	40.0
Public investment (USD bn)	16.4	21.8	19.7	22.2	25.8	24.1	24.0
Public investment (% GDP)	4.9	6.3	5.4	5.4	6.0	5.1	4.6
Fiscal balance (USD bn)	-8.8	-11.5	-14.6	9.3	-0.9	-8.6	-9.4
Fiscal balance (% GDP)	-2.6	-3.3	-4.0	2.3	-0.2	-1.8	-1.8

Source: Vietnam GSO, Ministry of Finance, Fiiipro-X, Forecasted by VNHAM