

## Could high US inflation affect Vietnam's economy performance?

Bureau of Labor Statistics of United State of America (US) has just released data about US inflation which is seen at 40-year high. Specifically, US CPI in January 2022 rose by 7.5% compared with January 2021, and rose 0.6% MoM. Data on CPI put pressure on the US Federal Reserve (FED) to control inflation which will be more hawkish. Economist from several major financial institutions (Bank of America, BNP Paribas, Deutsche Bank, GS and TD Securities) are projecting 4-7 rate hikes in 2022 ranging from a total of 100-200 bps increases in the fed rate. Market is worried that the FED will increase interest rates sooner and faster in conjunction with Quantitative Tightening program will affect consumption and growth prospects of the US economy in 2022.

	Number of 2022 FED hikes
Bank of America	7
BNP Paribas	6
Deutsche bank	5
Goldman Sachs	5
TD Securities	4

Source: fortune.com, as of 31<sup>st</sup> Jan 2022

On the domestic side, CPI in Vietnam still recorded low figures in January 2022, which rose 0.19% MoM and 1.94% YoY even toward our biggest holiday – Lunar New Year (or Tet Holiday). So even though US inflation is high, in our opinion, it has not caused major impact on Vietnam's CPI at the moment and we keep our view on Vietnam's inflation in 2022 which will be modest in 2022 following by key factors:

- (1) Various commodity price looks like to reach their peaks in 2021. So, according to experts, commodity price will stabilize in 2022 when the COVID-19 outbreak is under control, easy transportation and supply chains of goods are normalized.
- (2) Food & catering services sector, especially food prices, will be less volatile as pork production resumed as ASF outbreaks have been contained & Vietnam's pig herds have gradually recovered and other food & foodstuffs will not in supply shortage due to surging demand or supply chain disruptions or low production;
- (3) Oil prices are expected to be stable in 2022 as supply and demand will be matched, and retail gasoline price increased almost 32% YoY in 2021 and are also expected to be stable or increase slightly in 2022. So, in our opinion, retail gasoline prices will be stable in 2022 and will not affect transportation sector which shouldn't put upward pressure on the CPI in 2022.
- (4) Overall, we expect that CPI for 2022 will increase in range of 3% - 3.5% and remain within Government's target of 4%.

In addition, Vietnam's economy also started 2022 with relatively good fundamentals. After several months of switching to the living-with-COVID-19 strategy, Vietnam has basically regained its growth momentum. Vietnam is reopening economic activities with industrial activities continued to recover, and export also regained growth momentum, FDI inflows also increased and stable. Furthermore, the Government has just approved a fiscal and monetary stimulus package in an extraordinary session of the 15th National Assembly on January 11 2022, which in total is estimated to be over VND337tn (VND291tn for fiscal package and VND46tn for monetary package), to support the socio-economic recovery and development program after the impact of the COVID-19 pandemic, which is expected to help increase GDP growth rate by about 2.9% in 2022 and advocate government to fulfill the target GDP growth of 6.5-7% per year for 2021-2025 period. With this package and positive recovery signs after several months living-with-COVID-19, we continued to keep our view that Vietnam's economy will continue to perform well in 2022.

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