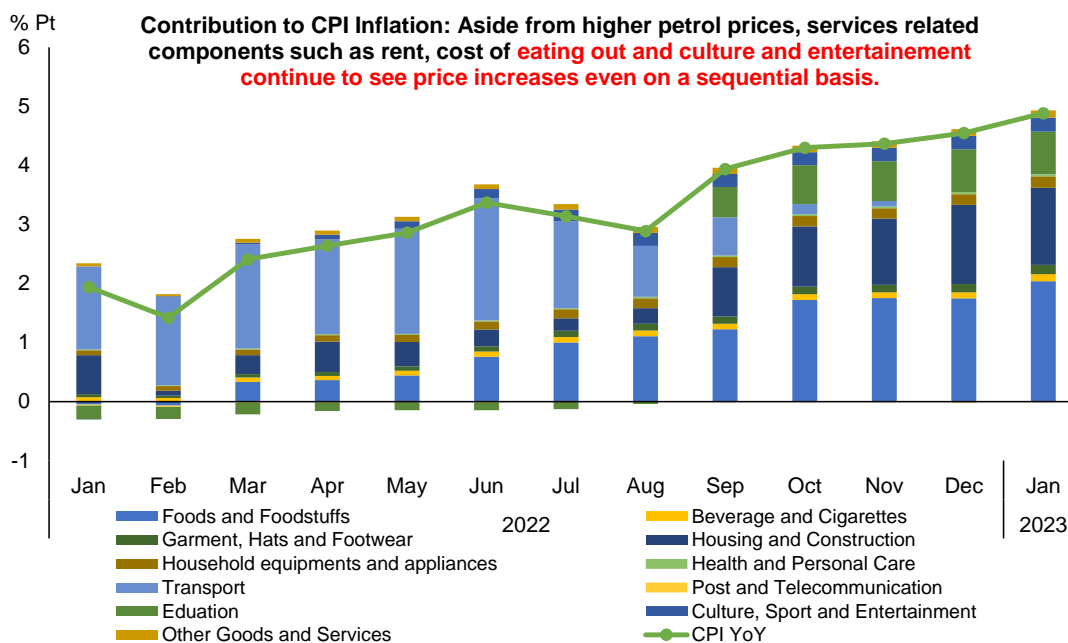


Vietnam CPI: Poised to Stay Higher



- Headline inflation print at 4.9% YoY for January continues to be **surpassed by their core inflation which came in at 5.2% YoY**. The inflation is clearly broad based as most categories in the consumer basket experience sequential monthly increase. Inevitably, the Tet holidays also played a role in driving up prices of poultry, apparel, jewellery, worship items and gifts such as alcohol. Nonetheless, these inflationary pressures are likely to be **persist in the coming months**.
- Despite supporting lower land use fees and extension of tax deadlines, the MOF **has yet to propose an extension of VAT cut** which was implemented in February 2022. As such, VAT rates have reverted back to 10% from 8%. With the **diminished likelihood** of a VAT reduction, we expect the effect of higher VAT rates to pass through to end consumers and keep both headline and core inflation elevated.
- Coming off a stellar 8.0% 2022 growth, **demand pull inflation is poised to stay strong**. Despite still **lacklustre Chinese tourists inflows** which consist of a third of pre-Covid inflows, **tourist arrivals in January reached 58% of 2019 levels**. Reflecting so, tourism-related CPI components such as hotels and accommodation increase by 0.6% and package tour prices rose 1.0% compared to December.
- To be clear, the authorities having upgraded their 2023 inflation target to **around 4.5%** are cognisant of these risks. That said, while February's inflation print can be expected to stay **above 5%**, high base effects in the following months of H1 2023 may see both inflation edge **gradually** back towards 4.5%.
- Policy actions to stem inflation will **skew towards administrative fiscal policies** such as their Resolution in December 2022 which sought to keep tuition fees stable in 2022-23 stable relative to 2021-2022. This resulted in falling education prices in January 2023. While the VND has benefitted from the softer USD trend, risks remain that the SBV may have to hike another 50bps in H1 if inflation overshoots significantly **and** an upwardly revised Fed's Dot plot pulls the USD higher.

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