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# VIETNAM MACRO MONITORING


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## *WHAT'S NEWS?*

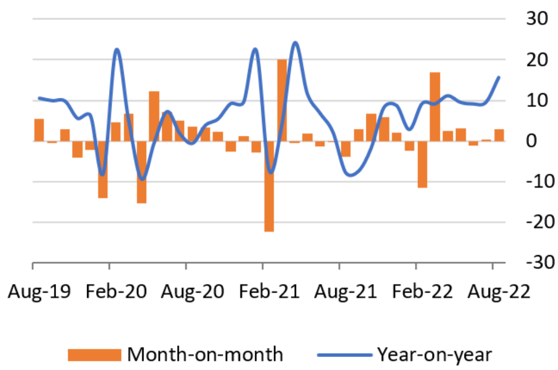
- Industrial production and retail sales posted another month of high growth rates (15.6 percent (y/y) and 50.2 percent (y/y)), mostly driven by the low-base effects related to the COVID-19 lockdowns in August 2021. Month-on-month growth in retail sales moderated in July and August 2022 after a strong Q2-2022 recovery.
- Exports and imports grew by 22.6 percent (y/y) and 13.3 percent (y/y) in August, respectively, higher than in July 2022. FDI commitments fell reflecting investor caution in the face of global uncertainty while FDI disbursement continued to improve, contributing to an eleven-month positive trend.
- CPI inflation moderated from 3.1 percent (y/y) in July to 2.9 percent in August thanks to softening fuel prices while core inflation continued to accelerate from 2.6 percent in July to 3.1 percent in August as the second-round effects of earlier increases in commodity prices affected productions costs and final prices.
- Credit growth remained strong at 16.2 percent (y/y) while overnight interbank interest rates (end of period) increased from 0.71 percent in June to 4.19 percent in July and 4.42 percent in August. This could be partly due to mismatch of lower domestic deposits due to low deposit rates and high demand for domestic credits, with banks competing in the interbank market for funds. It can also be partly due to SBV sale of some reserves over the past few months to stabilize the dong against a strengthening US dollar, thus tightening domestic liquidity.
- The budget registered an eighth month of surplus. The government did not borrow much in the domestic market, with government and government-guaranteed bond issuance equal to only 27.4 percent of the plan in the first eight months of the year, less than a half of the borrowing seen a year ago.
- Economic recovery has continued despite heightened economic uncertainties regarding higher global inflation and weakening economic growth in main trade partners. The authorities should remain vigilant about inflation risks associated with food and core prices. Also, while fuel prices have softened recently, global fuel price movements are uncertain. Thus, incentivizing alternative energy production and use would reduce the economy's dependence on imported fuels and promote greener growth. Also, strengthening the social support system, including its registration, targeting, and disbursement systems would facilitate reaching affected citizens during such shocks.

# RECENT ECONOMIC DEVELOPMENTS

**Industrial production continued to expand**

The industrial production index (IPI) increased by 15.6 percent (y/y) in August – 9 percentage points higher than in July (Figure 1). This high growth rate is mostly due to the low-base effects as industrial production was severely affected by COVID-19 health-related lockdowns a year earlier. Nonetheless, the sector also registered a 2.9 percent month-on-month (m/m) growth, highlighting its continued good performance beyond the low-base effect. The most dynamic sub-sectors included electronics (12 percent m/m) and transport equipment (15.7 percent m/m). The PMI manufacturing increased from 51.2 in July to 52.7 in August, marking eleven months of manufacturing expansion.

**Figure 1: Industrial Production Index**
(Percent, NSA)

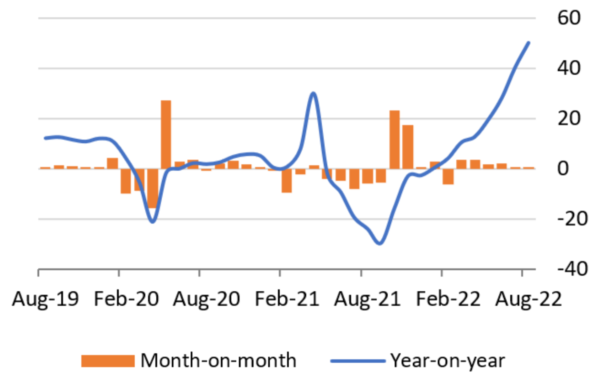



**Retail sales continued to recover, but at a slower pace**

Retail sales increased by 50.2 percent (y/y) in August, compared to the 40.3 percent (y/y) rate in July (Figure 4). This acceleration is mostly due to the low-base effects as sales had dropped by 24.1 percent and 19.5 percent in August and July 2021, because of the COVID-19 health related lockdowns. While there has been robust recovery of domestic private consumption, the month-on-month data show that retail sales growth has slowed (from 2 percent (m/m) in June, to 0.7 percent (m/m) in July and 0.6 percent (m/m) in August. On the other hand, arrival of international tourists continued apace in August with 486,400 international visitors, which was 37.9 percent higher than in July, yet only one-third of pre-pandemic levels.

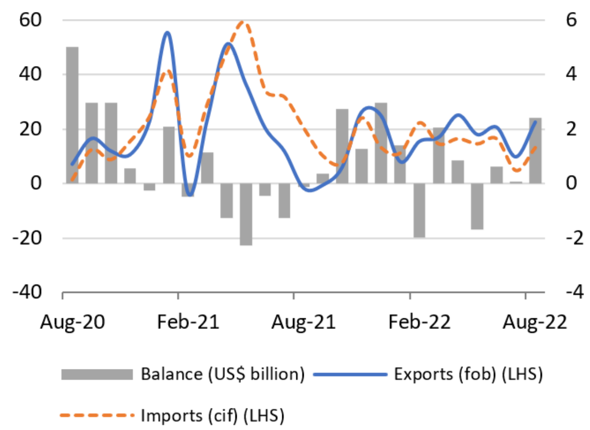
Sales of consumer services was triple the level recorded a year earlier and 3.5 percent higher than its pre-pandemic level. The accommodation and catering services increased by 185.3 percent, contributing about 50 percent to the growth in sales of consumer services. Travelling also soared, approaching its pre-pandemic level. Sales of goods maintained a strong growth of 31.9 percent (y/y).

**Figure 2: Retail Sales**
(Percent, NSA)




**The merchandise trade balance registered a US$2.4 billion surplus in August**

**Figure 3: Merchandise Trade**
(Percent, y/y, NSA)

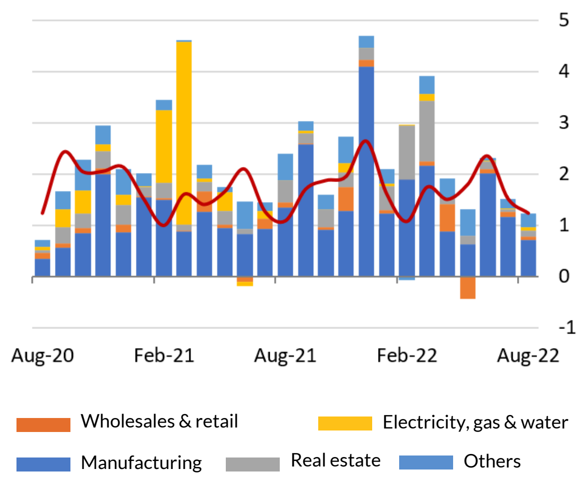



Exports growth accelerated to 22.6 percent (y/y) in August compared to 9.8 percent (y/y) in July while imports grew 13.3 percent (y/y) compared to 4.9 percent (y/y) (Figure 6). Some of these accelerations could be attributed to the low-base effects as merchandise trade was affected by the lockdown in Q3 2021. For instance, exports of textiles, garment, and footwear, registered a 77.6 percent (y/y) growth rate in August, compared to 31.9 percent (y/y) in July 2022. High-tech products (electronics and machinery) export grew 11.9 percent (y/y) in August, slightly higher than July (9.7 percent (y/y)).

One major driver of imports was crude oil and petroleum products, which increased by 247 percent (y/y) and contributed 3.9 percentage points to overall import growth. This could be attributed to both higher prices (up 47.3 percent (y/y)) and larger volume (up 172 percent (y/y)). Inputs for textiles, garment and footwear manufacturing also rebounded from dips in June and July, growing by 27.1 percent (y/y) and contributed 1.9 percentage points to import growth. This rebound is partly due increased imports from China and South Korea.

**FDI commitment slowed while disbursement remained strong**

**Figure 4: Foreign Direct Investment**
**($US billion, NSA)**

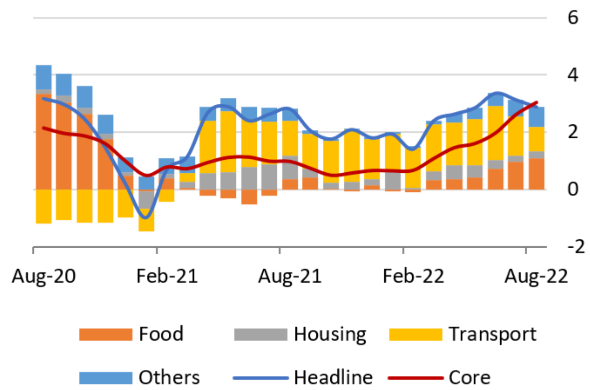



FDI commitments were US$1.2 billion in August, half of the level recorded a year earlier (Figure 6). Over the first 8 months of 2022, FDI commitments were 12.3 percent lower than a year earlier, reflecting investor caution given global uncertainties. The decline was broad-based and affected greenfield expansion and M&A. On the other hand, FDI disbursement continued apace in August (up 13.9 percent (y/y)), marking a nine-month rising trend.

**Headline inflation softened while core inflation continued accelerating**

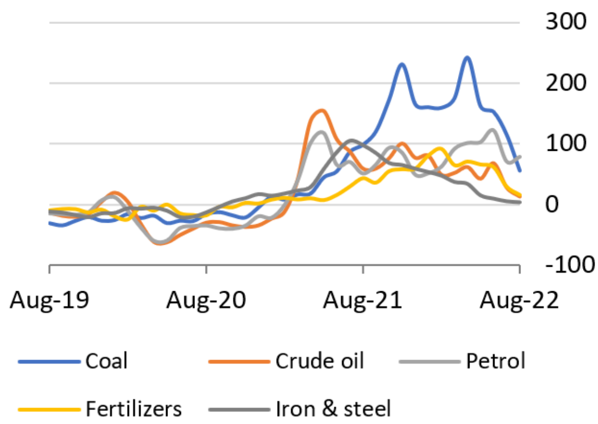
The Consumer Price Index (CPI) inflation moderated from 3.1 percent in July to 2.9 percent in August mainly due to softening energy prices (Figure 7). Following the downward trend in the global market, prices of gasoline and diesel, important components in the transport category, dropped by 14.5 percent and 12.9 percent, respectively, compared to a month earlier, easing costs on consumers. Nevertheless, the second-round effects of recent fuel price increases wended through the economy while domestic demand continued to strengthen, affecting food and core price increases. Food price inflation ticked up slightly from 3.0 percent (y/y) in July to 3.3 percent (y/y) in August as the price of foodstuffs and food consumption outside the home increased. Core CPI, which excludes food, energy, and items whose prices are administered by the government continued to accelerate, rising from 2.6 percent (y/y) in July to 3.1 percent in August.

**Figure 5: Contribution to CPI Inflation**
(Percent & percentage point, y/y)




**Major imported input prices also softened although they remained well above levels seen a year ago**

**Figure 6: Imported Input Prices**
(Percent, y/y)



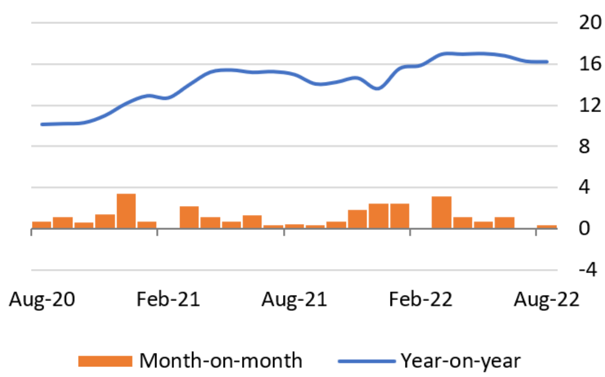

Price of imported fertilizers has continued to fall for a third month, dropping by 7.8 percent (m/m). Price of imported coal, crude oil and petroleum products also decreased by 17.1 percent (m/m), 13.7 percent (m/m), and 7.6 percent (m/m), respectively.

Moderating prices of imported materials are expected to help ease inflationary pressures in the domestic market (Figure 6).

**Credit growth remained high**

Credit to the economy grew by 16.2 percent (y/y) in May, comparable to the rate seen in July (Figure 7). After a strong acceleration in the first half of the year, credit growth softened as commercial banks closed in on administrative caps set by the State Bank of Vietnam (SBV). After a big jump from 0.71 percent in June to 4.19 percent in July, overnight interbank interest rates (end of period) increased to 4.42 percent by the end of August, exceeding the refinancing rate, a key policy interest rate, which is currently set at 4 percent. This sharp increase could be partly due to a mismatch of lower domestic deposits responding to low deposit rates and high demand for domestic credits, with banks competing in the interbank market for funds. It can also be the result of tightening domestic liquidity a SBV has sold some reserves since February 2022 to stabilize the dong against a strengthening US dollar. The latest data available indicates that between February and May 2022, SBV sold about US$6.8 billion.

**Figure 7: Credit Growth**
(Percent, NSA)




**Strong revenue growth and slow implementation of the budget continued to keep the budget in surplus**

Total revenue increased by 25.4 percent (y/y), while total expenditure increased by 5.9 percent (y/y). Consequently, the budget surplus in August 2022 stood at US$0.4 billion. Over the first 8 months of 2022, the government collected 85.6 percent of planned total revenue but spent only 53.6 of planned total expenditure, resulting in a US$11 billion budget surplus. Public investment disbursement reached 40.3 percent of the plan approved by the National Assembly, only slightly higher than a year ago (38.4 percent), due to continued budgetary and administrative constraints. Current expenditures reached 61.0 percent of planned, slightly lower than a year ago (63.0 percent).

The State Treasury issued US$1.1 billion worth of government bonds denominated in local currency in August, all of which had long maturities (ten years or longer).Over the first five months of 2022, total bond issuance (including those guaranteed by the government) reached 27.4 percent of annual plan, much less than in August 2021 (60.1 percent of planned 2021 borrowing). The cost of borrowing continued to rise. The yield on 10-year government bonds increased from 2.08 percent in December 2021 to 2.58 percent in July and 2.80 percent in August in the primary market. This increase may be partly driven by tightening domestic liquidity conditions and partly due to a change in domestic investors' risk appetite as the economy recovers.

**To watch:**

Economic recovery has continued despite heightened economic uncertainties regarding higher global inflation and slowing of economic growth in main trade partners. The authorities should remain vigilant about inflation risks associated with food and core prices. Also, while fuel prices have softened recently, global fuel price movements are uncertain. Thus, incentivizing alternative energy production and use would reduce the economy's dependence on imported fuels and promote greener growth. Also, strengthening the social support system, including its registration, targeting, and disbursement systems would facilitate reaching affected citizens during such shocks.

***Sources and notes:***

*All data are from Haver and sourced from the Government Statistics Office (GSO) of Vietnam, except: Government budget revenues and expenditures (Ministry of Finance), FDI (MPI); PMI and producer price inflation (survey by Nikkei and IHS Markit; Purchasing Managers' Index is derived from a survey of 400 manufacturing companies and is based on five individual indexes on new orders, output, employment, suppliers' delivery times (and stock of* *items purchased). It is seasonally adjusted. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction; while 50 indicates no change); financial sector data, including credit information (State Bank of Vietnam); credit and deposit growth in January and February 2022 (calculated by World Bank staff based on data from local news); number of confirmed COVID-19 cases, deaths and COVID-19 vaccine doses administered (Our World in Data), community mobility (the baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020, and changes for each day are compared to a baseline value for that day of the week) (Google); Treasury bonds (Hanoi Stock Exchange and Vietnam Bond Market Association); real effective exchange rate (World Bank Global Economic Monitor Database), official market exchange rate (Vietcombank)*

*SA=Seasonally Adjusted; NSA=Not Seasonally Adjusted; LHS = Left-hand Scale; FOB = Free on Board; CIF = Cost, Insurance, and Freight.*