VIETNAM MACRO MONITORING

Photo: Dorsati Madani/World Bank

WHAT'S NEWS?

- The two drivers of economic growth, exports and domestic demand, are moderating. Softer external demand has weighed on Vietnam's exports. The post-covid consumption rebound also appears to be fading and tighter domestic financial conditions and rising inflation could affect domestic demand going forward.
- Reflecting weaker external demand, growth of industrial production moderated to 5.3 percent (y/y) in November, the lowest rate since February 2022. The manufacturing PMI also slipped into the contractionary territory (below the 50 benchmark) for the first time since October 2021. Retail sales registered a high but decreasing growth rate (17.5 percent (y/y) compared to 20.7 percent (y/y) in October 2022).
- Merchandise exports contracted by 8.4 percent (y/y) - the first contraction since October 2021 due to weakening external demand and high base effects associated with the rebound in Q4 2021. While total FDI commitment moderated (-1.9 percent (y/y)), FDI disbursement maintained a robust growth (+14.4 percent y/y).
- CPI inflation reached 4.4 percent (y/y) in November, compared to 4.3 percent recorded a month earlier, with food and housing being two major contributors. Core inflation increased from 4.5 percent (y/y) in October to 4.8 percent (y/y) in November 2022.
- Credit growth fell from 16.5 percent (y/y) in October to 15.0 percent (y/y) in November as domestic financial conditions tightened after the State Bank of Vietnam raised key policy interest rates in September and October. Average overnight interbank interest rate remained high at 5.7 percent in November. In early December, the SBV announced a 1.5-2 percent increase of the credit growth cap.
- The Vietnamese dong gained slightly in value in November 2022 although the dong's appreciation is one of the smallest compared to major currencies and currencies of its neighbors.
- As of end November, the national budget registered a US$12.1 billion surplus (about 3 percent of GDP). With this sizable budget surplus and amid rising borrowing costs in the domestic capital market, the government bond issuance in the first 11 months of 2022 equals to only 45.6 percent of the annual issuance plan, compared to the 82.3 percent execution rate in the same period of last year.
- With global financing conditions expected to remain tight and weakening external demand, Vietnamese monetary authorities could consider allowing further flexibility in the exchange rate to absorb changes in the external environment. Fiscal and monetary policy coordination will be critical to ensure price stability in light of accelerating domestic core inflation. A more prudent and prioritized expenditure strategy could focus on ensuring investments in human capital and resilient and green infrastructure to help bolster economic potential and resilience.

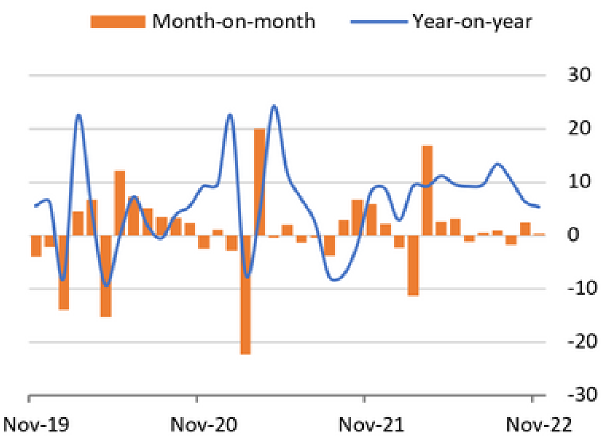
RECENT ECONOMIC DEVELOPMENTS

Growth of industrial production moderated

The industrial production index increased by 5.3 percent (y/y) in November, compared to 6.3 percent (y/y) in October, the lowest rate since February 2022 (Figure 1). Part of the deceleration is attributed to the high-base effects. Indeed, industrial production index rebounded from -1.8 percent (y/y) in October 2021 to 8.2 percent (y/y) in November 2021 as the country reopened following an extended COVID-19 lockdown. In addition, weak external demand could be another important contributor, as demand by major exports markets has been slowing down. Continuing the downward trend since September 2022, the manufacturing PMI slipped into contractionary territory (below the 50 benchmark) for the first time since October 2021, dropping from 50.6 in October 2022 to 47.4 in November. This indicates a deterioration of business conditions in November compared to previous months.

The moderation of overall industrial production growth masks a varied sub-sectoral performance. For instance, manufacturing of computers, electronics and optical products rebounded, increasing from 2.6 percent (y/y) in October to 5.6 percent (y/y) in November. Manufacturing of machinery also recovered from 9.8 percent to 17.2 percent between the same period. On the other hand, manufacturing of apparel moderated from 5.5 percent (y/y) in October to 2.2 percent (y/y) in November.

Figure 1: Industrial Production Index
(Percent, NSA)

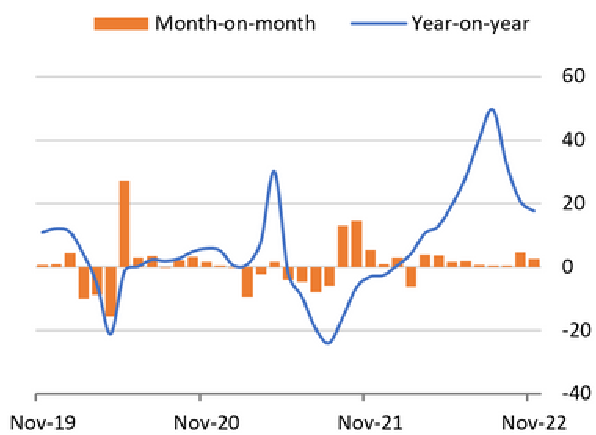


As did retail sales

Retail sales' growth slowed from 20.7 percent (y/y) in October to 17.5 percent (y/y) in November, a third month of moderation (Figure 2). On the one hand, this moderation is partly attributed to the fading low-base effects related to the COVID-19 lockdowns in Q3-2021. On the other hand, the consumption rebound experienced in the first three quarters of the year appears to be fading. Sales of goods increased by 10.7 percent (y/y), compared to pre-pandemic growth rates of around 12 percent (y/y). The sales of catering and accommodation exceeded the pre-pandemic level by 5.3 percent in November 2022, However, travelling services remained 37 percent lower than in November 2019.

While foreign tourism continues to recover, the number of tourist arrivals is still well below those seen before the -COVID crisis. The country hosted nearly 600,000 international visitors in November, a 23.2 percent increase from October, yet equal to only one-third of the level recorded in November 2019. This is partly due to the slow return of Chinese visitors. On average, they made up 32 percent of total international visitors in 2019, compared to 7.2 percent in 11M-2022, and 2.6 percent in Nov 2022.

Figure 2: Retail Sales
(Percent, NSA)

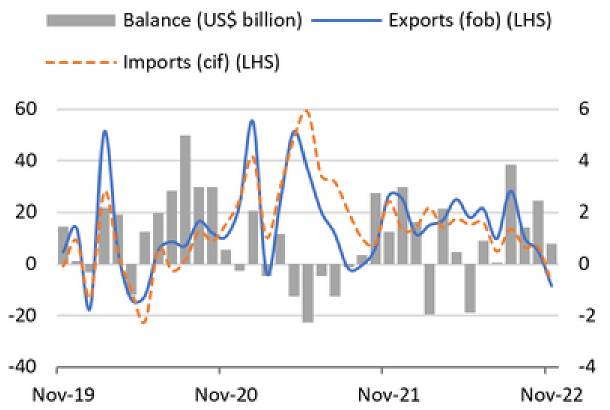


Both exports and imports of goods contracted for the first time since November 2021

Merchandise exports and imports contracted by 8.4 percent (y/y) and 7.2 percent (y/y) respectively in

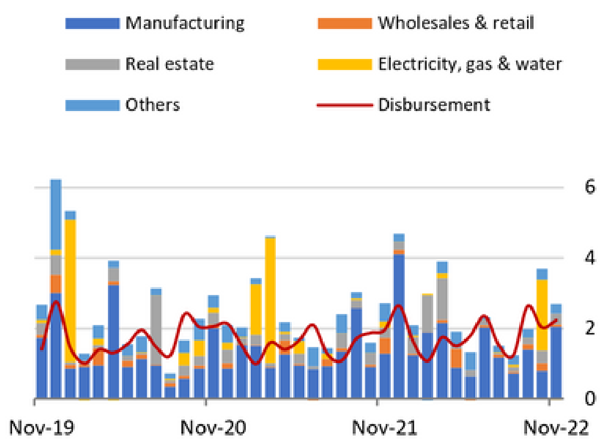
November 2022 (Figure 3). The fall in exports was broad based. It was partly due to weakening external demand but also reflects high-base effects as both registered exceptional growth rates in November 2021 due to the reopening of the economy after months of lockdown (up by 26.3 percent (y/y) and 24.1 percent (y/y), respectively in November 2021). Given the high dependence of exports on imported inputs, all major import products experienced sharp declines compared to a year earlier, except for imports of fuel, which increased by 61.7 percent (y/y) in November 2022.

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



FDI commitment continued to moderate

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



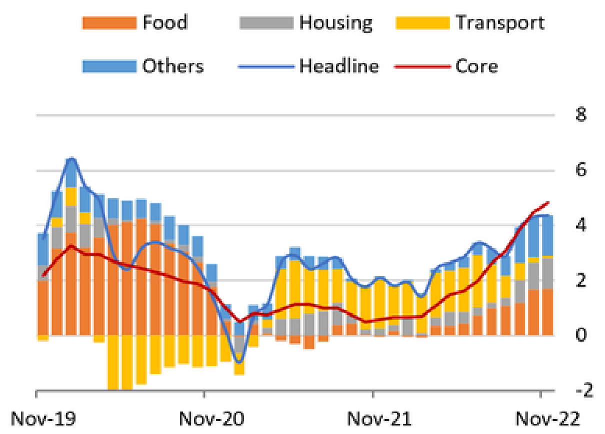
After a big jump in October, total FDI commitment moderated to US$2.7 billion in November, down by 27.9 percent (m/m) and 1.9 percent (y/y). Notwithstanding this decline, commitment in manufacturing rebounded sharply, increasing by 158 percent (m/m) and 50 percent (y/y) (Figure 4).

Over the first 11 months of 2022, the total FDI commitment reached US$25.1 billion, down by 5.0 percent compared to a year earlier. FDI disbursement remained strong, growing by 14.4 percent (y/y) in November and by 15.1 percent (y/y) for the first 11 months of 2022.

Headline and core inflation continued to increase

The Consumer Price Index (CPI) inflation ticked up slightly from 4.3 percent in October to 4.4 percent in November (Figure 5). Food and foodstuff and housing and construction materials were the major contributors to CPI, increasing by 5.2 percent (y/y) and 6.0 percent (y/y) in November, respectively. The contribution of transport to CPI continued to shrink as prices of gasolines and diesel softened. Although they increased by 5.8 percent (m/m) and 5.3 percent (m/m) in November 2022, respectively, they were 4.1 percent lower than a year earlier. Core inflation, which excludes food, energy, and price-controlled items (education and health services) continued to accelerate from 4.5 percent in October to 4.8 percent in November, a new record high.

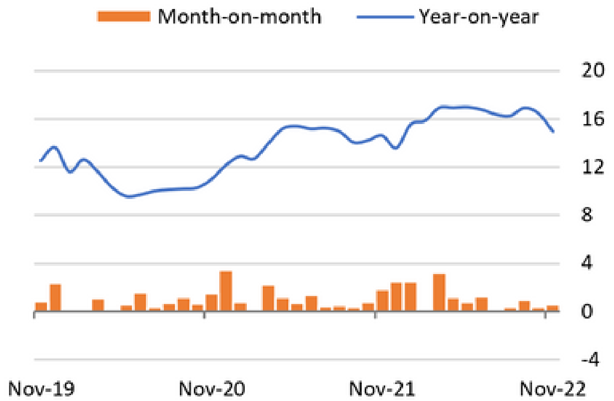
Figure 5: Contribution to CPI Inflation
(Percent & percentage point, y/y)



Credit growth decelerated but remained high

Credit growth fell from 16.5 percent (y/y) in October to 15.0 percent (y/y) in November, the sharpest fall in recent months (Figure 6). This slowdown reflected the impact of tightening domestic financial conditions after the State Bank of Vietnam raised key interest rates by a total of 200 basis points in September and October. Average overnight interbank interest rate remained high at 5.7 percent in November 2022. It also reflected the cap on credit growth imposed by the SBV, which this latter loosened in early December by raising the credit cap by 1.5-2 percent.

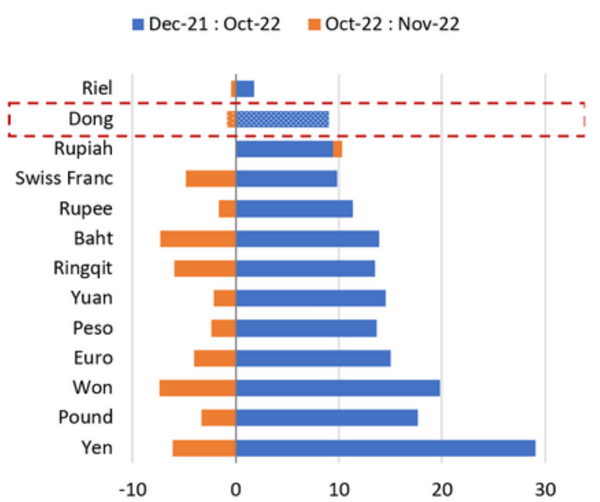
Figure 6: Credit growth
(Percent, NSA)



Pressure on the Vietnamese dong eased

The Vietnamese dong appreciated slightly in November (0.8 percent), compared to the 9.1 percent accumulated depreciation since the end of 2021. This appreciation was mainly attributed to a general weakening of the U.S. dollar in international markets. In fact, all major currencies and currencies of Vietnam's neighbor countries appreciated against the U.S. dollar in November 2022 (Figure 7). SBV's increase of key policy interest rates by 200 basis point in September and October 2022 also contributed to easing depreciation pressure on the dong.

Figure 7: Rate of Currency Depreciation against the U.S dollar (percent)



Note: Positive value indicates a depreciation against the U.S. dollar.

Fiscal balance registered a large surplus in November

The monthly budget balance registered a US$1.4 billion surplus in November after a brief fall into deficit in September and a small US$0.2 billion surplus in October. Total revenue increased by 5.9 percent (y/y), compared to a 6.7 percent (y/y) decrease in October. Total expenditure accelerated, increasing by 17.0 percent (y/y) in November compared to 11.8 percent (y/y) a month earlier. As of the end of November 2022, total revenue collected was already 16.1 percent higher than the planned total revenue while total expenditure amounted to 76.2 percent of planned total expenditure (one percentage point higher than during the same period last year), resulting in a US$12.1 billion budget surplus for the first 11 months of 2022.

With the budget balance in surplus and amid rapidly rising domestic borrowing costs, the State Treasury issued only US$1.7 billion worth of government bonds denominated in local currency in November, all of which had long maturities (ten years or longer). Over the first 11 months of 2022, total bond issuance only reached 45.6 percent of the annual issuance plan, much less than in the same period of 2021 (82.3 percent of planned). The cost of borrowing continued to rise, with the yield on 10-year government bonds increasing from 4.0 percent to 4.8 percent in the primary market (the sharpest increase since the pandemic). Compared to a year ago, the rate has increased by 270 basis points. The yield gap between the primary and secondary market narrowed as the rate in the latter levelled off at 5.2 percent in November. Rising borrowing costs reflected the tightening domestic financial conditions as the SBV had raised interest rates to stabilize the domestic currency against the US dollars in September and October.

To watch:

The two drivers of economic growth, exports and domestic demand, are moderating. External demand is softening, weighing on exports. The post covid consumption rebound appears to be fading and tighter domestic financial conditions and rising inflation could affect domestic demand going forward.

The weakening of the US dollar in November has helped alleviate some of the pressure on the exchange rage. Given tight global financial conditions and weakening external demand, Vietnamese monetary authorities could consider allowing further flexibility in the exchange rate to accommodate external shocks. This could be complemented with judicious use of reference interest rates and prudent use of direct FX interventions to ensure FX reserves are protected. Fiscal and monetary policy coordination will be critical to ensure price stability in light of accelerating domestic core inflation. A more prudent and prioritized expenditure strategy should focus on ensuring investments in human capital and resilient and green infrastructure to help bolster economic potential and resilience.

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 readingabove 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), daily market exchange rate from Financial Times.

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