Vietnam's economy registered a strong growth of 13.7 percent (y/y) in Q3-2022 and 8.9 percent (y/y), mostly reflecting a low base effect.

Industrial production and retail sales posted another month of high growth rates (13.0 percent (y/y) and 36.1 percent (y/y)), which could be attributed both to strong economic activities and to the low-base effects.

Both exports and imports growth moderated in September 2022 due to weakening demand from major export markets. FDI commitment fell in September affected by the heightened uncertainty about the global economic prospects while FDI disbursement continued to improve.

Despite softening energy prices, CPI inflation accelerated from 2.9 percent in August to 3.9 percent in September largely due to higher education costs and rents. Core CPI inflation accelerated as well, from 3.1 percent in August to 3.8 percent in September. The terms of trade deterioration eased in Q3-2022 compared to Q2.

Credit growth accelerated from 16.2 percent (y/y) in August to 17.2 percent (y/y) in September as the State Bank of Vietnam (SBV) raised credit growth limits on some commercial banks. With strong demand for credit, average overnight interbank interest rate rose from 3.5 percent in August, reaching 5.48 percent in mid-October, the highest since 2013.

The Vietnamese dong continued to depreciate against a strengthening U.S. dollar in September (1.0 percent (m/m) and 3.8 percent (y/y)). To stabilize the domestic currency, on 23 September 2022, the SBV raised two key policy interest rates and the cap on key short-term rates on deposits denominated in local currency by 100 basis points, the first rate hike since April 2020.

The budget balance posted a US$0.5 billion deficit in September for the first time in 2022, but still registered a US$10.5 billion surplus over the first 9 months of the year. Given the budget surplus, year-to-date government bond issuance reached only 28.7 percent of annual plan, compared to 67.9 percent in 2021.

While the economic recovery has remained strong, heightened uncertainties related to the slowing global economy, rising domestic inflation, and tightening global financial conditions warrant increased vigilance and policy agility. Given the economy has not fully recovered and growth in main export markets is expected to slow, continued active fiscal policy to support the economy should be closely aligned with economic outcomes and coordinated with monetary policy. At the same time, as CPI and Core CPI are reaching 4 percent – the policy rate set by the authorities – monetary authorities should be ready to consider further tightening of monetary policy to ensure inflation remains anchored. Given the end of forbearance and tightening financial conditions, the financial sector faces heightened risks and prompt SBV guidance would help stem materialization of such risks at the sector level, potentially affecting the real economy. The recent turmoil around the Saigon Commercial Bank (SCB) case highlights the need for increased transparency through timely publication of detailed information about the banking sector performance, an enhanced corporate governance, a strengthened risk-based supervision, including supervision of business groups and related party lending and early intervention, and an enhanced bank resolution framework.
RECENT ECONOMIC DEVELOPMENTS

Vietnam’s economy registered strong growth in Q3-2022, largely reflecting the low base effects

Vietnam’s GDP grew by 13.7 percent in Q3-2022 compared to a year ago (Figure 1). This record high growth rate was partly due to the low-base effect as the economy had shrunk by 6 percent in Q3-2021 following prolonged lockdowns to contain the COVID-19 pandemic. Services sector, which was hit hardest last year posted the highest growth (18.9 percent (y/y)) and contributed 8.5 percentage points to the GDP growth rate. In particular, accommodation and catering services exceeded their pre-pandemic levels for the first time since Q2-2020 thanks to strong recovery of domestic demand and the return of international visitors. Industry and construction grew by 12.9 percent (y/y) and contributed 4.9 percentage points. Over the first three quarters, GDP grew by 8.9 percent (y/y).

The industrial production index grew by 1.8 percent (m/m) and 13.0 percent (y/y) in September 2022, again partly reflecting the base effects from Q3-2021 (Figure 2). While all other major manufacturing subsectors registered growth, manufacturing of computers, electronics, and optical products contracted for the first time since February 2022 (by 2.4 percent (y/y)), reflecting weakening external demand as shown in the slowdown in their exports. Manufacturing PMI registered 52.5 in September, comparable to August, and the 12th month of expansion of the index.

As did retail sales, carried mainly by continued strong consumer services

Retail sales increased by 2.9 percent (m/m) and 36.1 percent (y/y) in September (Figure 3). Sales of consumer services registered a stronger growth than sales of goods (up 6.5 percent (m/m) and 1.9 percent (m/m), respectively). The sales of services were driven by sales of real estates, administrative and supporting services, health and education, recreation, and other services. On the other hand, as the summer tourism season drew to a close, sales of accommodation and catering grew by only 1.3 percent (m/m), and sales of travelling services dropped by 3.0 percent (m/m).

Labor market conditions continued to improve

Labor force participation rate improved slightly from 68.5 percent in Q2-2022 to 68.7 percent in Q3 but remained well below the pre-pandemic level of 71.3 percent (Figure 4). The unemployment rate
imports of phones, computers, and electronics and machinery, and highlighting the heavy dependence of high-tech exports on these imported inputs.

Trade in services remained in deficit despite the recovery of service exports

Service trade balance posted a deficit of US$3.2 billion in Q3-2022, which was high relative to pre-pandemic levels (Figure 6). Exports of services grew by 39.1 percent (q/q), reaching about three-fourth of pre-pandemic levels. Recovery of receipt from travelling was the main contributor, as it reached US$1.3 billion in Q3-2022 or 133 percent higher than in the second quarter. Vietnam hosted 1.3 million international visitors in Q3-2022, about 29 percent of pre-pandemic levels. On the other hand, service imports already exceeded their pre-pandemic level in Q2-2022 and increased by another 7.9 percent (y/y) in Q3-2022.

FDI commitment slowed while disbursement remained strong

FDI commitments dropped by 34.6 percent (y/y) in September, reflecting the heightened uncertainty associated with global economic prospects and the tightening financial conditions to fight inflation in advanced economies (Figure 7). The decline was observed in all major sectors and in greenfield, expansion and M&A. By contrast, FDI disbursement rose for a 10th month, but the scale of the increase -54.6 percent (y/y) - partly reflects the low-base effect related to Q3-2021 lockdowns. Over the first 9 months of 2022, FDI commitments totaled US$18.8 billion, 15.3 percent lower than a year earlier while FDI disbursement reached US$15.4 billion, a 16.2 percent (y/y) increase, exceeding its pre-pandemic level.
Headline inflation accelerated despite softening fuel prices

The Consumer Price Index (CPI) inflation accelerated from 2.9 percent in August to 3.9 percent in September (Figure 8). Transport was no longer the major contributor to inflation thanks to softening prices of gasolines and diesel, which fell by 5.9 percent (m/m) in September and were only 11.2 percent higher than a year earlier. Instead, the accelerating inflation was driven by a rise in prices of education (from -0.6 percent (y/y) to 8.4 percent (y/y) and housing and construction materials (from 1.4 percent (y/y) to 4/4 percent (y/y)) between August and September 2022. Tuition fees rose as pandemic era caps and reductions placed on fees expired, leading to higher education costs. Stronger housing demand in cities at the beginning of the new academic year drove rents up. Food inflation increased from 3.3 percent (y/y) in August to 3.7 percent (y/y) in September due to rising agriculture input prices and stronger domestic demand. Core inflation, which excludes food, energy, and price-controlled items (education and health services) continued to accelerate from 3.1 percent (y/y) in August to 3.8 percent (y/y) in September, the highest in seven years.

Manufacturing producer prices softened while agriculture producer prices picked up

Manufacturing Producer Price Index (PPI) moderated from 4.4 percent (y/y) in Q2-2022 to 3.9 percent (y/y) in Q3, reflecting the softening of manufacturing input prices, from 6.0 percent (y/y) to 5.7 percent (y/y). By contrast, agriculture PPI accelerated from 2.2 percent (y/y) in Q2 to 5.7 percent (y/y) in Q3-2022, closing the lag in the passthrough of agricultural input prices increases observed early in the year (Figure 9). Some of this lag can be attributed to a recovering economy and some to the longer agricultural production cycle. In turn, rising agriculture PPI are likely contributors to food price increase in Q3.

The terms of trade deterioration eased

This improvement is due to a combination of softening import prices and flat export prices. Import price index increased by 10.2 percent (y/y) in Q3-2022, down from 11.4 percent (y/y) in Q2 while export price index rose by 8.9 percent (y/y) in Q3, at par with the 8.6 percent (y/y) rate in Q2 (Figure 10). As a result, the terms of trade deterioration eased from 2.6 percent (y/y) in Q2 to 1.2 percent (y/y) in Q3. Slower increase in import prices could be attributed to softening price of fuels (from 52.16 percent to 37.5 percent) and major imported inputs, including steel (from 33.1 percent (y/y) to 20.9 percent (y/y)), fibers (from 13.8 percent to 6.9 percent), fertilizers (45.1 percent to 35 percent), and rubber (from 4.8 percent to 0.1
percent). The fall in transportation cost may also have played a role. Coastal and ocean freight was only 4.9 percent higher in Q3-2022 than a year earlier, compared to the 10.8 percent rate in Q2-2022.

Credit growth accelerated

Having plateaued since March 2022, credit growth accelerated from 16.2 percent (y/y) in August to 17.2 percent (y/y) in September as the State Bank of Vietnam raised credit growth limits on some commercial banks (Figure 11). With strong demand for credit, average overnight interbank interest rate increased from 3.5 percent in August to 4.9 in September, reaching 5.48 percent in mid-October, the highest since 2013.

Security fraud probe triggered turmoil around a large private bank

In early October, the authorities launched an investigation into a major real estate company on charges of fraudulent property transactions and bond issuance, leading to the arrest of the company’s Chairperson CEO and three other persons, some of whom were affiliated with Saigon Commercial Bank (SCB). These events triggered a short-term run on SCB deposits. In response the SBV Governor reassured markets and depositors that the central bank will ensure the safety of depositors’ money in Vietnam’s commercial banks, including SCB. The bank has come under special supervision by the SBV, and SBV has announced it will assign personnel to key management positions.

The Vietnamese dong depreciated against the U.S. dollar

Amid months-long tightening of global financial conditions and the strengthening of the US dollar, the official VND/US$ exchange rate continued to depreciate in September (1.0 percent (m/m) and 3.8 percent (y/y)) (Figure 12). To stabilize the domestic currency, on 23 September 2022, the SBV raised two key policy interest rates by 100 basis points: the discount rate from 2.5 percent to 3.5 percent and the refinancing rate from 4.0 percent to 5.0 percent. Additionally, the cap on short-term rate on deposits denominated in local currency (one month to less than six months) was increased from 4.0 percent to 5.0 percent. These are the first-rate hikes by SBV since the start of COVID-19 pandemic.

The fiscal balance was in deficit in September

The budget balance posted a US$0.5 billion deficit in September for the first time in 2022. Total revenue increased by 62.6 percent (y/y) while total expenditure increased by 15.4 percent (y/y), partly reflecting low-base effects as both had been significantly affected a year earlier. Over the first 9
months of 2022, the government collected 94 percent of planned total revenue but spent 60.9 percent of planned total expenditure, resulting in a US$10.5 billion budget surplus. Public investment disbursement reached 48.1 percent of the plan approved by the National Assembly, more than two percentage points higher than a year ago (45.8 percent) while 68.3 percent of planned current expenditures were spent, compared to 70 percent a year ago.

With the budget balance in sizable surplus, the State Treasury issued only US$0.4 billion worth of government bonds denominated in local currency in September, all of which had long maturities (ten years or longer). Over the first nine months of 2022, total bond issuance reached 28.7 percent of annual plan, much less than in the same period of 2021 (67.9 percent of planned). The cost of borrowing continued to rise, with the yield on 10-year government bonds increased from 2.80 percent to 3.0 percent in the primary market and from 3.7 percent to 5.0 percent in the secondary market, respectively between August and September.

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)

To watch:

While the economic recovery has remained strong, heightened uncertainties related to the slowing global economy, rising domestic inflation, and tightening global financial conditions warrant heightened vigilance and policy agility. Given the economy is not fully recovered and growth in main export markets are expected to slow, continued active fiscal policy to support the economy should be closely aligned with economic outcomes and coordinated with monetary policy. At the same time, as CPI and Core CPI are reaching 4 percent – the policy rate set by the authorities – monetary authorities should be ready to consider further tightening of monetary policy to ensure inflation remains anchored. Given the end of forbearance and tightening financial conditions, the financial sector faces heightened risks and prompt SBV guidance would help stem materialization of such risks at the wider, sector level basis, potentially affecting the real economy. The recent turmoil around the Saigon Commercial Bank (SCB) case highlights the need for increased transparency through timely publication of detailed information about the banking sector performance, enhanced corporate governance, strengthened risk-based supervision, including supervision of business groups and related party lending and early intervention, and an enhanced bank resolution framework.