WHAT’S NEW?

- The industrial production index increased marginally by 2.6 percent (y/y) in August, due to continued expansion of industrial production for domestic consumption and a slight pickup in monthly export performances during May-August 2023.

- Retail sales grew by 7.6 percent (y/y) in August, compared to 5.1 percent (y/y) in July, but still lower than pre-covid levels (11 – 12 percent). While sales of goods increased marginally, sales of services continued to register robust growth, largely due to the expansion of tourism and hospitality services.

- Exports and imports of goods continued to contract by 7.3 percent (y/y) and 8.1 percent (y/y) respectively in August 2023. However, monthly performances of exports and imports have been improving sequentially since May, suggesting that the slump in exports may have bottomed out.

- The CPI inflation ticked up from 2.1 percent (y/y) in July to 3.0 percent (y/y) in August 2023 reversing the preceding 6 months downtrend, with food and housing continuing to be the two major contributors.

- Credit growth rose slightly to 9.4 percent (y/y) in August 2023 from 9.0 percent (y/y) in July, still well below the levels seen in recent years, reflecting continued weak investor confidence and private sector investment.

- The monthly budget balance registered a deficit of US $2.1 billion in August, while the cumulative budget deficit to August 2023 was estimated at US $2.3 billion. As end of August, revenue collection decreased by 9.1 percent (y/y) due to slowing economic activities and public expenditure increased by 15.2 percent (y/y) – largely due to an increase of 40.3 percent (y/y) in public investment disbursement.

TO WATCH

While the export slump may have bottomed out, and domestic consumption remained resilient, credit growth continued to be slow, reflecting weak private domestic investment and investors’ confidence. Recent upward movements in global energy prices warrants close monitoring of CPI inflation. This may also prevent SBV from loosening monetary policy further. The continuation of tight global financial conditions warrants flexible FX management to accommodate external conditions. Further acceleration of public investment disbursement could support aggregate demand and economic growth in the short run while focusing on priority green and resilient infrastructure and human capital investments will help bolster long term economic development.
RECENT ECONOMIC DEVELOPMENTS

Industrial production improved slightly but remained weak

The industrial production index increased marginally by 2.6 percent (y/y) in August 2023, in line with modest month-on-month improvements registered since May 2023 (Figure 1). The improvement is due to a continued expansion of industrial production for domestic consumption, including food and beverage as well as gasoline, partly mirroring the resilience in domestic demand in August 2023 (proxied by retail sales – Figure 2). Production of furniture and textile, also improved in July and August 2023 compared to a year earlier. This reflects an expectation of improved external demand ahead of the Christmas season and given upward revisions of growth in the US and Japan for 2023. On the other hand, production of key exports, including footwear and leather products, electronic, computer, cell phones (including parts), motor vehicles and transportation equipment continued to contract in August compared with the same period of 2022. Vietnam Manufacturing PMI rose to 50.5 in August 2023, following five consecutive months in contractionary territory (March – July 2023), indicating the slight improvement in business conditions.

Retail sales improved slightly but remained well below pre-covid levels

Retail sales grew by 7.6 percent (y/y) in August, slightly improved from 5.1 percent (y/y) in July 2023 (Figure 2). This is, however, still much lower than pre-covid levels (11 – 12 percent). Accounting for almost 80 percent of total retail sales, the growth of sales of goods improved marginally from 7.0 percent (y/y) in July to 7.5 percent (y/y) in August. Meanwhile, sales of services continued to grow by 11.4 percent (y/y) in August 2023, largely due to the expansion of tourism services (21.3 percent, (y/y)) and accommodation and restaurants services (10.8 percent, (y/y)). Vietnam received around 1.2 million international visitors in August, a 17 percent increase from July – reflecting the high travel season of the year. The number of international visitors in the first eight months of 2023 reached 7.8 million - an increase of 4.4 percent compared with the same period in 2022 but is still 30% below the pre-pandemic level (2019).

International merchandise trade continued to contract, but there are some signs of improvement

Exports and imports of goods continued to be in contractionary territory in August 2023, decreasing by 7.3 percent (y/y) and 8.1 percent (y/y), respectively (Figure 3). The contraction in exports was due to a fall in exports of key manufacturing products, including smart phones (-14.6 percent), machinery (-17.9 percent), textile (-17.8 percent) and footwear (-19.3 percent). Reflecting the contraction in exports, imports of intermediate inputs (which account for about 94 percent of total imports) declined sharply in as well, including textile (-17.2 percent, y/y), electric appliances (-16.9 percent, y/y), smart phones (-55.3 percent, y/y), machinery (-11.8 percent, y/y). The contractions in merchandise trade reflect continued weak demand from key exports markets, including the US and EU, to which exports fell by 19.1 percent and 8.3 percent (y/y) respectively in the first eight months of 2023.
However, overall exports and imports trends show monthly improvements since May, registering gradually smaller/shallower contractions of both exports and imports, suggesting that the slump in exports may have bottomed out.

**FDI performance remained steady amid global uncertainties**

FDI commitment reached US$1.9 billion in August 2023, a decrease of 32 percent compared with July. However, cumulative FDI commitment for the first eight months of 2023 amounted to US$18.1 billion, 8.2 percent higher than the same period in 2022. FDI disbursement remained steady, reaching US$1.5 billion in August 2023, an increase of 23.6 percent compared with a year earlier. Cumulative FDI disbursement to August 2023 reached US$13.1 billion, comparable to the same period of 2022 (Figure 4). Steady FDI commitment and disbursement reflect continued foreign investors’ interest in business opportunities in Vietnam despite global uncertainties.

**Headline inflation picked up while core inflation continued to soften slightly**

The Consumer Price Index (CPI) inflation ticked up from 2.1 percent (y/y) in July to 3.0 percent in August 2023 (Figure 5), reversing the downtrend of the preceding 6 months. Food and foodstuff, as well as housing and construction materials were the major contributors to CPI inflation, increasing by 2.3 percent (y/y) and 7.1 percent (y/y) respectively in August 2023. Education services also increased by 5.1 percent (y/y) in August ahead of the new academic year in September. On the other hand, the deflationary effects of falling transport costs have faded. Core inflation, which excludes food, energy, and price-controlled items (education and health services), moderated slightly from 4.1 percent (y/y) in July to 4.0 percent (y/y) in August.

**Credit growth picked up slightly**

Credit growth rose from 9.0 percent (y/y) in July to 9.4 percent (y/y) in August 2023, but remained well below rates seen since before the pandemic and below the annual indicative credit headroom set by the State Bank of Vietnam for 2023 (14 percent) (Figure 6). Low credit growth - despite SBV’s four policy and deposit/lending rate cuts in between March and June and ample market liquidity - reflects continued weak private sector investment, including in the real estate sector, and weak investor confidence.
The government budget continued to be in deficit.

The monthly budget balance registered a deficit of US $2.1 billion in August, while the year-to-date budget deficit reached US $2.3 billion. As the economy slowed, revenue collection decreased by 23.2 percent (y/y) in August 2023, following year-on-year decreases of 17-36 percent registered during April to July 2023. Meanwhile, public expenditure continued to accelerate, increasing by 22.1 percent (y/y) in August, comparable to the months of May, June, and July, due to increases in public investment disbursement.

As of end of August 2023, cumulative revenue collection reached US $44.5 billion (70 percent of the annual fiscal plan) – registering a decrease of 9.1 percent compared to end August 2022. In the meantime, cumulative budget execution reached US $46.8 billion (52.1 percent of the planned budget), increasing by 15.2 percent compared to same period of 2022. Cumulative disbursement of public investment in the first eight months reached 39.6 percent of the annual fiscal plan – registering an increase of 40.3 percent compared to the same period of 2022.

By the end of August, the State Treasury had issued about VND 230.5 trillion worth of government bonds, equivalent to 57.6 percent of total planned borrowing for 2023. About 83 percent of the bond issuances had long maturities of 10 years and 15 years, with coupon rates of 2.36 percent and 2.59 percent, respectively.

To watch:

While the export slump may have bottomed out, and domestic consumption remained resilient, credit growth continued to be slow, reflecting weak private domestic investment and investors’ confidence. Recent upward movements in global energy prices warrants close monitoring of CPI inflation. This may also prevent SBV from loosening monetary policy further. The continuation of tight global financial conditions warrants flexible FX management to accommodate external conditions. Further acceleration of public investment disbursement could support aggregate demand and economic growth in the short run while focusing on priority green and resilient infrastructure and human capital investments will help bolster long term economic development.

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 growth in July and August 2023 (calculated by World Bank staff based on data from local news).

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