

VIETNAM MACRO MONITORING



WHAT'S NEWS?

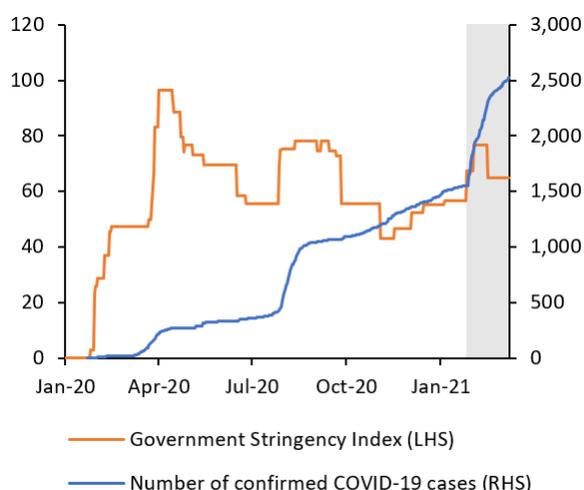
- The authorities acted swiftly to control a new COVID-19 outbreak, which started in late January 2021 in Hai Duong, a province in the Red River Delta of northern Vietnam.
- Domestic recovery is on track as industrial production and retail sales growth continued to be positive amidst the third wave of COVID-19.
- Vietnam's reported its first trade deficit since April 2020, due to a slight decline in exports and still rising imports, but it is too early to conclude if this represents a new trend in merchandise trade balance.
- Inflation rose in response to the termination of temporary electricity price reductions and higher domestic demand associated with Tet (Lunar New Year) holidays while the credit growth of 12.0 percent was in line with the expansion reported in recent months.
- In the first two months of 2021, the Government collected about 0.6 percent (y/y) more revenue as fiscal policy was less accommodative while slower public investment disbursement reduced total expenditure.
- Looking ahead special attention should be paid to rollout of COVID-19 vaccinations as it will impact the pace of Vietnam's economic recovery. Further fiscal and monetary policy interventions may be needed to support recovery of private demand.

RECENT ECONOMIC DEVELOPMENTS

Swift response from the government brought the late January COVID-19 outbreak quickly under control

The government quickly introduced strict but targeted measures to suppress this new outbreak of COVID-19 in Hai Duong, the epicenter, including during the Tet holidays. The stringency index, which measures the strictness of social distancing policies jumped at the end of January and remained high during the first half of February (Figure 1). As a result, the number of new cases started decreasing, and restrictions were partly eased in the second half of the month. As of March 9, 2021, this new outbreak led to 894 new infections, predominantly in Hai Duong, with the all-time total reaching 2,526 confirmed cases and only 35 deaths.

Figure 1: COVID-19 and Government Responses

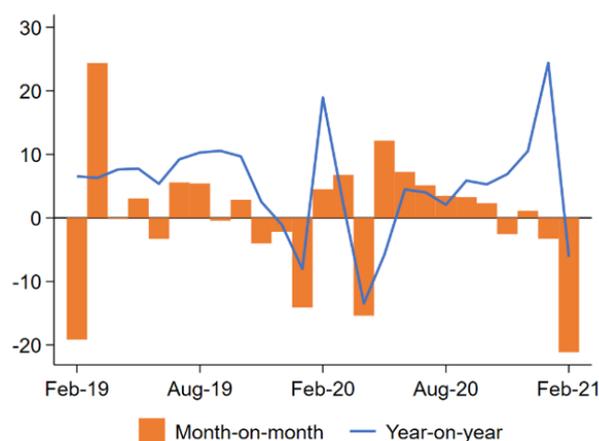


In the meantime, Vietnam has approved Astra Zeneca (UK), Generium (Russia), and Moderna (U.S) vaccines. The government also approved a resolution to purchase a total of about 150 million doses of COVID-19 vaccines, and prioritized recipient groups. The country received its first 117,000 doses of vaccines in late February 2021, and vaccinations kicked off on 8 March 2021, starting with healthcare workers in Hanoi, Ho Chi Minh City and Hai Duong.

Industrial production slowed as factories closed in observance of the Tet holidays

Industrial production index dropped by 7.2 percent (y/y) in February 2021 (Figure 2). This decline is mainly reflecting the cross-year difference in the timing of the Tet holidays, when factories shut down for a week. The two-month moving average still registered an increase of 8.8 percent (y/y) in the first two months of 2021. Metals production, and electronics, computers and optical products continued to grow by 8.6 percent and 3.2 percent, respectively in February, thanks to strong external demand.

Figure 2: Industrial Production Index (% change, NSA)



Retail sales picked up in February 2021 after a slowdown in January

Despite the new COVID-19 outbreak, retail sales in February grew by 0.3 percent (m/m) and by 8.3 percent (y/y) due to higher consumption demand associated with the Tet holidays (Figure 3). While lower than pre-COVID-19 performance, this growth suggests that the government's targeted response to the outbreak mitigated the spillover of the negative impacts of anti-COVID stringency measures on economic activities to provinces outside the epicenter.

The increase in retail sales was driven by stronger sales of goods in February (10.5 percent (y/y)) compared to January (5.4 percent (y/y)). While

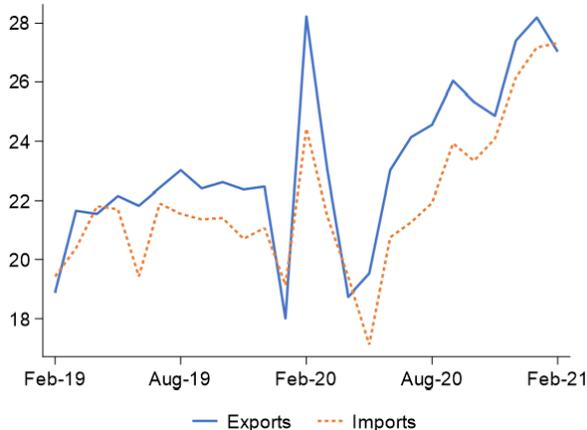
sales of catering and accommodation was only 0.1 percent lower than a year ago, traveling services continued to be severely depressed, and declined by 60.8 percent (y/y).

Figure 3: Retail Sales (% change, SA)



Exports fell slightly while imports continued to increase sharply, resulting in the first reported trade deficit in 10 months

Figure 4: International Trade (USD billions, SA)



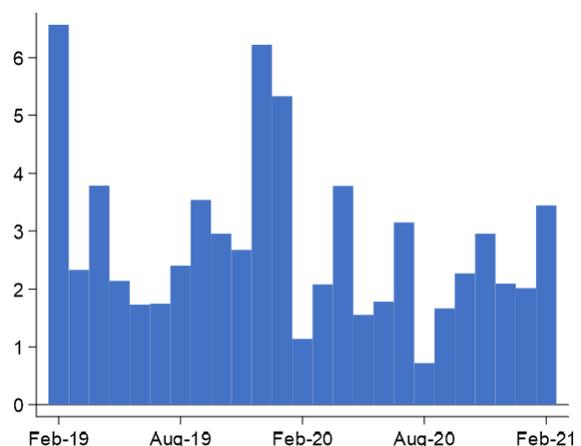
Merchandise exports fell by 4.2 percent (y/y) while imports grew by 11.8 percent (y/y) in February 2021, resulting in the first month of trade deficit since April 2020 (Figure 4). While textiles and apparel, footwear and phones contributed to lower exports, computers, electronics and optical products, machinery, metal and metal products, and furniture maintained robust growth. Foreign-owned exporters, who dominate high-technology product manufacturing, appeared to be more dynamic as their exports dropped by only 1.0

percent (y/y), compared to a 15.1 percent (y/y) fall in exports of domestic firms. By trading partners, preliminary data show that exports to U.S. and China rose while those to EU, ASEAN, Korea, and Japan decreased. The increase in imports was driven by a doubling of imports from China in February 2021 compared to the same period last year, mirroring January 2021 import patterns. In January 2021, imports of phones, computers, electronics and their parts, and machinery accounted for half of total imports from China and grew by over 75 percent (y/y). This reflects both Vietnam's heavy reliance on imported inputs in manufacturing and the continuation of trade diversification due to trade tensions between U.S. and China, which have yet to be resolved.

Foreign direct investment (FDI) inflows rebounded strongly in February 2021 after two months of slowdown

After a sub-par performance in January 2021, the country attracted \$US 3.4 billion of FDI in February 2021, which was 70.4 percent higher than in the previous month, and tripled the value of FDI observed in February 2020 (Figure 5). The recent increase in FDI amid the COVID-19 pandemic was primarily driven by higher greenfield investments (265.7 percent, y/y) and expansion (273.0 percent, y/y). Major projects included the O Mon II thermal power plant worth US\$ 1.31 billion in Can Tho, and an OLED panel module plant worth \$US 750 million in Hai Phong.

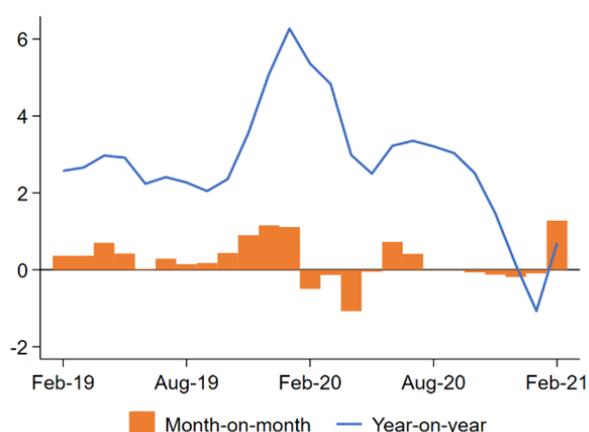
Figure 5: Foreign Direct Investment (USD billion, NSA)



After months of declining inflation, domestic prices picked up in response to the termination of the one-time 10 percent electricity price reduction and the influence of stronger domestic demand during the Tet holidays

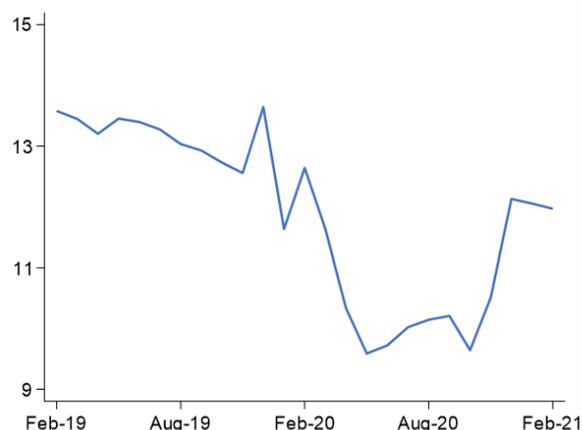
The Consumer Price Index (CPI) grew by 1.3 percent (m/m) and 0.7 percent (y/y) in February 2021 (Figure 6). This acceleration in prices increase followed months of deceleration. It reflects the one-time adjustment in electricity tariffs (up by 10 percent) and stronger consumer demand, particularly for food products during the Tet holidays. Food prices were indeed 0.3 percent higher than in the previous month, and 1.2 percent higher than in February of 2020.

Figure 6: Consumer Price Index (% change, SA)



Credit growth leveled off as economic activities paused during the Tet holidays

Figure 7: Credit Growth (% y/y)



Credit growth remained at 12.0 percent (y/y) during February 2021, in line with the rate observed in recent months. This rate of expansion is only one or two percentage points below the rates observed prior to the COVID-19 crisis, reflecting the rebound in the real economy and the accommodative monetary policy followed by the State Bank of Vietnam (Figure 7).

Fiscal policy is being slightly adjusted as revenue collection improved in the first two month of 2021, while spending fell due to the slow execution of the public investment program

In the first two month of 2021, the Government collected 286.7 trillion VND of revenues, which is 0.6 percent higher than the same period last year. This good performance – the first time that government total revenue is increasing since the beginning of the COVID-19 crisis a year ago – reflects the ongoing recovery and the elimination of most tax incentives that were adopted in April 2020. On the expenditure side, total spending dropped by 6.0 percent (y/y) to 207.3 trillion VND due to lower public investment, which was estimated at 23.5 trillion VND, and fell by 32.4 percent (y/y). The disbursement rate was only 5.1 percent, compared to 7.4 percent achieved in the first two months of 2020.

The Ministry of Finance proposal for a second round of tax and land rental deferrals is being discussed by the cabinet. The total size of the package was estimated at 115 trillion VND (\$US 5 billion). If approved and implemented well, it is expected to help businesses and households maintain their economic activities, particularly in tourism, which remains depressed.

The State Treasury plans to borrow 350 trillion VND in the domestic market in 2021, with a weighted average maturity of 14.1 years. In the first two months, it borrowed a total of 27 trillion VND, or 7.7 percent of its annual plan. Bonds were issued mostly with maturities of 10 and 15 years. Ample liquidity kept borrowing cost low, with the yield on 10-year Treasury Bonds on February 17 standing 2.17 percent, the same as in January.

To watch:

The rapid suppression of the new COVID-19 outbreak in late January 2021 has helped maintain Vietnam's positive outlook for economic recovery in 2021. Looking ahead special attention should be paid to how the COVID-19 vaccinations will be rolled out domestically and globally as they will impact the pace of Vietnam's economic growth. Further fiscal and monetary policy interventions may be needed to support recovery of private demand.

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 and Ministry of Planning and Investment (MPI)), FDI (MPI); PMI (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, FiiinResearch; credit growth in October, November and December 2020, and January and February 2021 (calculated by World Bank staff based on data from MPI); Covid-19 cases (Ministry of Health); Government Stringency Index, and accumulative number of confirmed COVID-19 cases (World Bank High Frequency & COVID data dashboard); Treasury Bonds (Hanoi Stock Exchange).

SA = Seasonally Adjusted;

NSA = Not Seasonally Adjusted;