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VIETNAM MACRO MONITORING

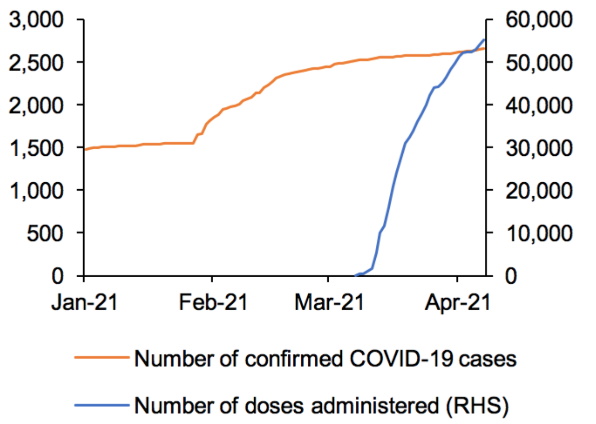
WHAT'S NEWS?

- Vietnam grew 4.5 percent (y/y) in first quarter of 2021, a strong performance, although recovery was uneven across sectors.
- Mobility in public transport hubs and places like restaurant rebounded, but has yet to reach the pre-pandemic levels, reflecting the long-lasting impact left on tourism and domestic demand.
- Industrial production rebounded as factories resumed normal economic activities while retail sales remained subdued after a sharp dip in February.
- Computers, electronics, and machinery continued to drive the strong performance of merchandise trade while FDI inflows registered the second consecutive month of solid growth.
- Prices rose due to increasing fuel prices in the global market while credit growth picked up in response to more economic activities after the Tet holidays.
- Fiscal policy appears to have shifted to a more neutral stance as the economy has been recovering. The fiscal balance was in surplus for the first time since the onset of COVID-19 pandemic thanks to the on-going recovery of domestic sector and robust growth of merchandise imports.
- Looking ahead special attention should be paid to the equity of Vietnam's economic recovery. Further policy measures may be needed to support businesses and workers in subsectors such as tourism, which may be left behind in the economy's recovery from the COVID-19 shock.

RECENT ECONOMIC DEVELOPMENTS

Government continues to manage the COVID-19 health crisis well. As of 13 April, the total number of confirmed COVID-19 cases reached 2,705 cases with only 35 deaths. At the same time, Vietnam had received over 900,000 COVID-19 vaccine doses, of which about 55 thousand doses have been administered (Figure 1). The country expects to obtain 60 million doses of COVID-19 vaccines through COVAX Facility and AstraZeneca in 2021.

Figure 1: COVID-19 cases and vaccinations



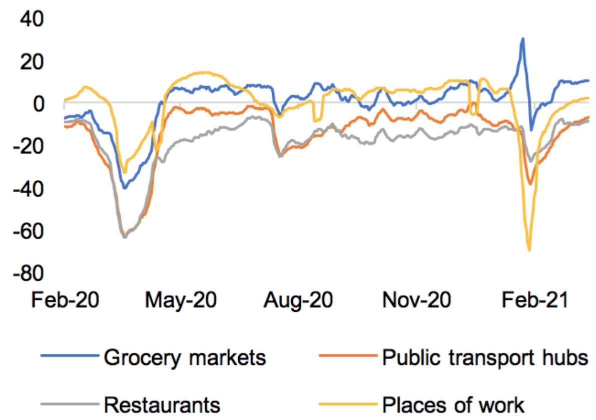
Vietnam is recovering from the COVID-19 shock, but this recovery has been uneven across sectors

GDP growth reached 4.5 percent (y/y) in the first quarter of 2021, comparable to the performance achieved in the last quarter of 2020. While this growth rate remained lower than the pre-pandemic levels, it reflected the on-going recovery of the economy despite the third outbreak of community transmitted infections in February in Northern Vietnam. Growth however varied considerably across sectors. On the one hand, agriculture was not very affected by the shock, growing 3.2 percent (y/y), and industry and construction accelerated from 5.6 percent (y/y) in the last quarter of 2020 to 6.3 percent (y/y) thanks to strong external demand. On the other hand, services expanded by only 3.3 percent (y/y), about half of pre-pandemic growth rates. Particularly, the tourism-related sectors remained severely depressed with accommodation and catering services being 4.5 percent lower than the same period last year.

Mobility in public transport hubs and restaurants rebounded, but has yet to reach the pre-pandemic levels

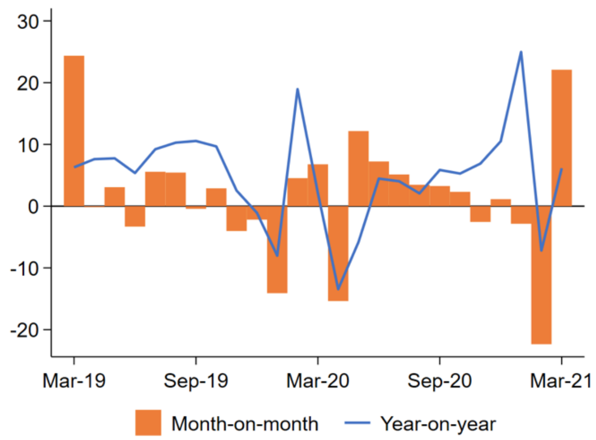
After slowing down in February, mobility picked up in March, reflecting the resumption of economic activities (Figure 2). Mobility in grocery markets and places of works recovered to the levels observed prior to COVID-19 in early February 2020. Nevertheless, mobility in public transport hubs and restaurants remained below the pre-pandemic levels, reflecting the long-lasting scar left by the crisis on tourism.

Figure 2: Mobility trends (Seven day moving average)



Industrial production rebounded in March 2021 as factories resumed activities post Tet holidays

Figure 3: Industrial Production Index (% change, NSA)



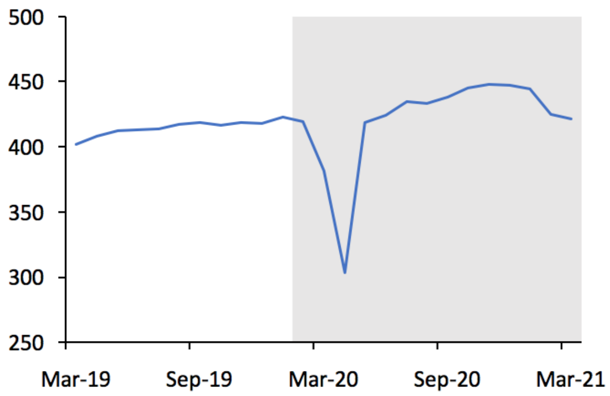
The industrial production index increased by 6.1 percent (y/y) in March 2021 (Figure 3). The most dynamic sub-sectors included beverage as businesses were ramping up to serve domestic demand in the summer. The manufacturing of metals, electronic components, electrical equipment, machinery, and motor vehicles also grew thanks to strong external demand. The PMI index rose from 51.3 in February to 51.6 in March, confirming the continued expansion of manufacturing.

Retail sales remained subdued in March 2021 after a sharp dip in February

Despite the Tet holidays when Vietnamese typically increases spending significantly, the revised retail sales showed a drop of -4.4 percent (m/m) in February 2021, revealing that the third outbreak of COVID-19 in Northern Vietnam and measures put in place by the authorities to control the community spread had significant impacts on domestic consumption. In fact, mobility in public transport hubs did not rise in the run-up to Tet holidays as many Vietnamese did not return to their hometown for celebration due to COVID-19, and thus, reduced their spending.

In March, retail sales fell again by 0.9 percent (m/m) as consumption softened after Tet (Figure 4). It still grew by 10.5 percent (y/y), but mainly due to base effects as domestic demand had fallen significantly at the onset of the pandemic a year ago.

Figure 4: Retail sales (trillion VND, SA)

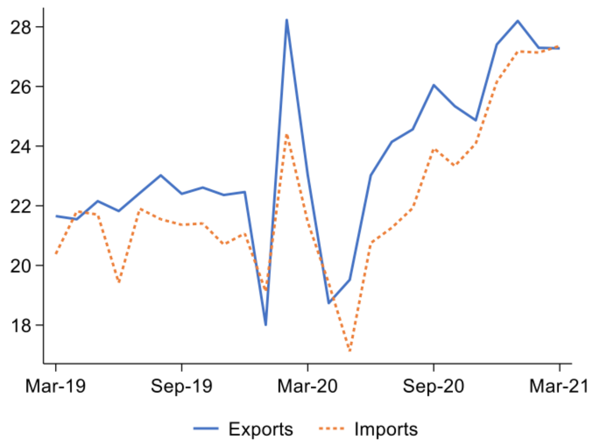


Merchandise trade continued to perform exceptionally well, driven by strong external demand for computers, electronics, and machinery

Exports and imports of goods grew by 18.4 percent (y/y) and 27.5 percent (y/y), respectivelyin March 2021 (Figure 5). By products, the most important contributors to the build-up of merchandise trade were computers, electronics, and machinery, which accounted for about one-third of total trade value. Their exports and imports last month grew by 45 percent and 26 percent, respectively, exemplifying the heavy reliance of Vietnam's exports on foreign inputs. Exports of textile and garment, and footwear also rebounded, growing by 15.5 percent (y/y) and 19.2 percent (y/y), respectively while those of mobile phones fell by 19.1 percent (y/y).

The strong exports growth was mainly driven by more resilient foreign-owned exporters. Their exports increased by 32.1 percent (y/y), compared to a fall of 10.8 percent (y/y) in local firms' exports. By trading partners, the booming exports reflected strong demand from U.S. and China, as well as a rebound of demand from EU. Higher imports related to growing procurements of goods from China, ASEAN, and Korea.

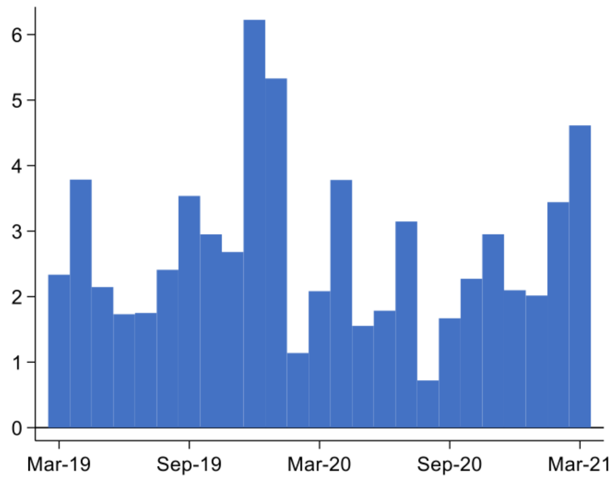
Figure 5: International Trade (USD billion, SA)



Foreign direct investment (FDI) inflows registered the second consecutive month of strong growth

Vietnam attracted $US 4.6 billion of FDI in March 2021, which was 34.0 percent higher than in the previous month (Figure 6). The increase was driven by a greenfield investment worth over $US 3.1 billion in a 3,000-MW liquefied natural gas (LNG) power plant in Long An.

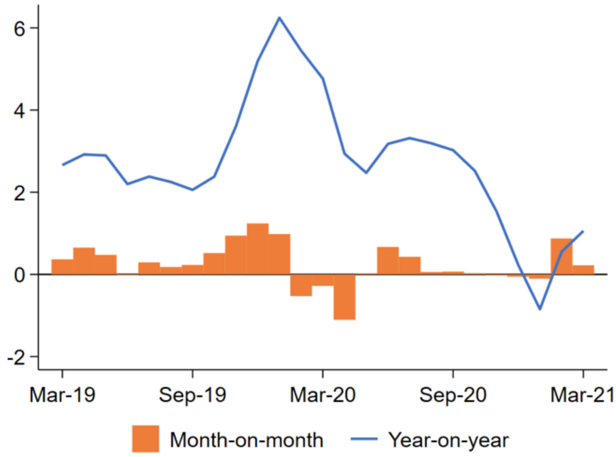
Figure 6: Foreign Direct Investment (USD billion, NSA)



Prices increased in March 2021 due to rising fuel prices in the global market

The Consumer Price Index (CPI) increased by 0.22 percent (m/m) and 1.1 percent (y/y) in March 2021 (Figure 7). The higher CPI inflation was mainly driven by the government's 6.9 percent (m/m) upward adjustment of fuel prices in late February and during March. These increases followed the steady rising of oil prices in the global market since October 2020. Food prices dropped slightly, compared to the previous month as demand for food softened after Tet holidays.

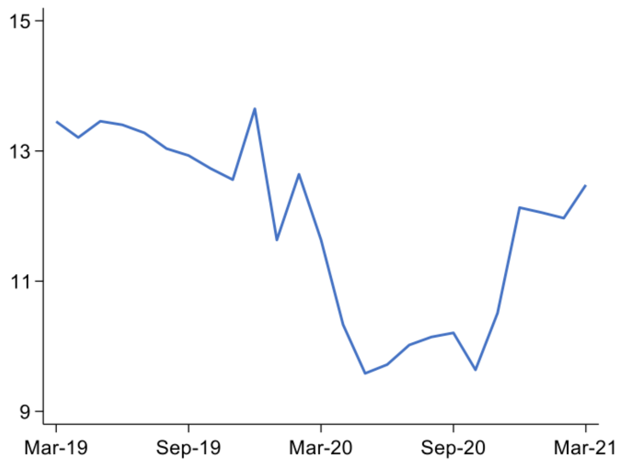
Figure 7: Consumer Price Index (% change, SA)



Credit growth picked up as economic activities resumed

Credit to the economy grew by 12.5 percent (y/y) in March 2021. This pace of expansion is close to the pre-COVID period, reflecting the effect of accommodative monetary policies of the State Bank of Vietnam. It helped provide adequate funds to finance the recovery of the economy (Figure 8).

Figure 8: Credit Growth (Percent, y/y)



The authorities appear to have shifted to a more neutral fiscal policy as the economy has been recovering

The fiscal balance was in surplus for the first time since the onset of the pandemic. In the first quarter of 2021, the Government collected 403.7 trillion VND of revenues (a 3.2 percent (y/y) increase) while total spending decreased by -0.4 percent (y/y) to 341.9 trillion VND, resulting in a fiscal surplus of over 60 trillion VND, which is 29 percent higher than a year ago. High revenues reflected a stronger domestic sector and the solid growth of imports with taxes on international transactions increasing by 9.7 percent (y/y). Implementation of public investment was on track with a disbursement rate of about 13 percent, equivalent to the one achieved in the first quarter of 2020.

As of the end of March 2021, the State Treasury borrowed a total of 39.2 trillion VND, only 39% of its borrowing plan for the first quarter of 2021. Bonds were issued mostly with maturities of 10 and 15 years. Borrowing cost rose slightly, with the yield on 10-year Treasury Bonds on March 25 standing 2.27 percent, which is 10 basis points higher than in February.

To watch:

Recovery is strong but remains uneven, with some services sub-sectors still severely affected. Domestic demand has yet to fully recover from the COVID-19 shock. While shifting to a more neutral fiscal policy is the right policy as the economy recovers, this recovery may face new shocks or lingering weaknesses in some sub-sectors of the economy. The authorities may wish to consider further fiscal and monetary measures should the crisis persist, and the economy does not recover as quickly as expected. The authorities are considering a tax deferral package that could help firms with working capital. Providing further support to families and individuals who are still affected by the shock will help strengthen private demand. Given the lingering effects of the crisis on businesses, the financial sector should be closely monitored.

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, FiinResearch; credit growth from October 2020 to March 2021 (calculated by World Bank staff based on data from MPI); number of confirmed COVID-19 cases and COVID-19 doses administered, and Google 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) (World Bank High Frequency & COVID data dashboard); Treasury Bonds (Hanoi Stock Exchange).

SA = Seasonally Adjusted
NSA = Not Seasonally Adjusted