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Global Markets Research

Research Alert

Vietnam: 1Q GDP slowed more than expected to 3.3%

Domestic demand were the economic drivers; exports plunged

Inflation dipped below the government's threshold level of 4.0%

SBV will likely keep rate unchanged at 6.00% to support the property sector

Background

Vietnam's 1Q GDP softened more than expected to +3.3% y/y (4Q22: +5.9% y/y) as exports took a hit from tighter monetary policies globally and consequently, dampened demand. As a result, the manufacturing sector reported a marginal contraction of 0.4% y/y during the quarter as compared to positive growth in 2022, while the mining sector also fell 5.6% y/y, On the other hand, the agriculture and construction sectors posted marginal growths of 2.4% y/y and 2.0% y/y respectively. The services sector held steady at +6.8% y/y as consumer spending and tourism remained strong.

Moving forward, Vietnam's economy is expected to normalise this year, as the initial impact of the post-COVID reopening boom fizzled out and weighed down by the slowing demand for Vietnamese products from the United States and the European Union. As it is, consensus is expecting GDP growth of +6.0% for 2023 (2022: +8.0% y/y), vs the government's growth target of +6.5% y/y for the year.

Consumer spending still holding the fort; robust tourism activities

Domestically, firms and labour markets have been recovering while the external sector showed weakness. Overall employment levels are reported to be back to pre-Covid-19 levels and household incomes rebounded by 5.8% by mid-2022. Unemployment rate, meanwhile, has also remained low and steady at 2.3% in 1Q (2022: 2.3%). Tourist arrivals also shot up to 2.7m in the 1Q (whole of 2022: 3.7m). As a result, retail sales grew at a softer but still solid pace of +13.4% y/y in March (Feb: 13.2% y/y vs Jan: +20.0% y/y). Specifically, tourism-related sales remained strong, charting triple digit growths (+113.9% y/y vs Feb: +94.75 y/y).

Infrastructure spending is a key growth driver ahead

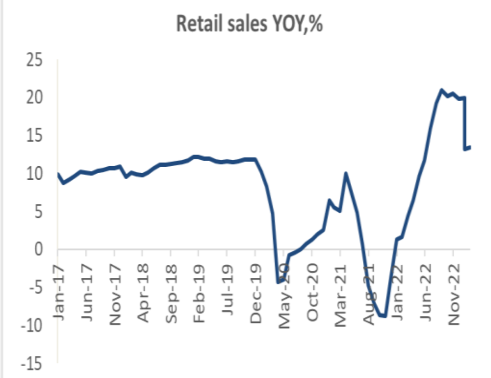
As mentioned earlier, worsened international demand put a drag on Vietnamese manufacturing sector. In March, the Index of Industrial Production (IPI) dipped 1.6% y/y (Feb: +3.6% y/y) with negative growth recorded in the manufacturing sub-sector (-1.7% y/y vs +3.3% y/y). This is in line with the worse than expected contraction in export growth for the month by 14.8% y/y (Feb: +11.0% y/y). Slower exports were driven by lower shipment for mining products as well as manufacturing products like chemical and plastic products, textiles and footwear, iron and steel, telephones, camera, recording equipment and machineries, electronics and computers as well as furniture.

The Vietnamese government is aiming to raise infrastructure spending from 4% of GDP in 2022 to 7% this year, which would help support the country's long-term economic growth. This new infrastructure is needed to help ensure that FDI inflows continue to flow into Vietnam for years to come. Total registered and implemented capital plunged 38.8% y/y and 2.2% y/y for the 1Q of 2023, while capital from the state picked up the slack and shot up by 11.5% y/y. As such, it is crucial now that the

Figure 1: GDP growth moderated in 1Q

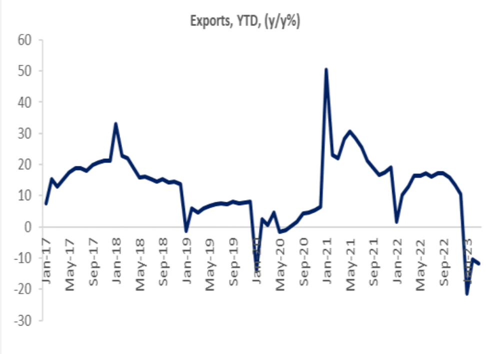
Source: Bloomberg

Figure 2: Sustained growth in retail sales underpinned by tourism activities



Source: Bloomberg

Figure 3: Exports plunged amid slowing external outlook



Source: Bloomberg

Government speed up the disbursement of public investment to support the economy as well as long-term growth.

Inflation has stayed above 4% until now

On a positive note, Vietnam's inflation decelerated sharply and more than expected to +3.4% y/y in March (Feb: 4.3% y/y). This is the first month since September 2022 where prices were below government's target of less than 4.0%. In fact, Bui Thuy Hang, the central bank's deputy head of monetary policy department, said that inflation is forecasted at 5.0% in early 2023 and 4.5% for the full year. The key risk will be the lingering concern from quicker than expected gains in input costs, which was seen rising at the fastest rates in eight months in February, the latest data available. Firms will be hoping to see these pressures ease as the year progresses to make sure demand improvements can be sustained.

SBV likely to keep key rate unchanged for now

Anyhow, the State Bank of Vietnam cut several policy rates by 100bps on March 15, after the prime minister ordered it to support property developers. The central bank reduced the discount rate from 4.5% to 3.5% and lowered the overnight inter-bank lending rate from 7.0% to 6.0%. It also cut the cap on the lending interest rates for short-term loans in some sectors from 5.5% to 5.0%. The benchmark refinancing rate remained unchanged at 6.0%. In lieu of the need to support growth and with easing price pressures, the central bank has the leeway to leave the policy rate unchanged for the rest of the year.

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