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Global Markets Research

Research Alert

Vietnam: 2Q GDP surprised on the upside

2Q GDP growth regained momentum for the first time in three quarters

Domestic demand the main growth pillar amid external headwinds

6.5% growth target a tall order; expect more stimulus measures to help support growth

Faster than expected pick-up in 2Q GDP growth

2Q GDP picked up more than expected to increase 4.1% y/y in 2Q, beating consensus estimate for a +3.8% y/y increase, and improving from the 3.3% y/y expansion in 1Q. This marked its first acceleration in three quarters, driven by faster growth in agriculture/ forestry/ fishery, and industry/ construction, offsetting slower growth in services. It is believed that government stimulus measures including interest rate cuts to boost domestic consumption and measures to spur tourism are bearing fruits.

In the first half of 2023, the Vietnamese economy expanded 3.7% y/y, still below pandemic levels of 5.7%. Services were the main growth pillar, expanding 6.3% y/y, followed by construction (+4.7%) and meagre growth in manufacturing (+0.4%), which was hit by power shortages in 2Q.

Less robust June economic indicators

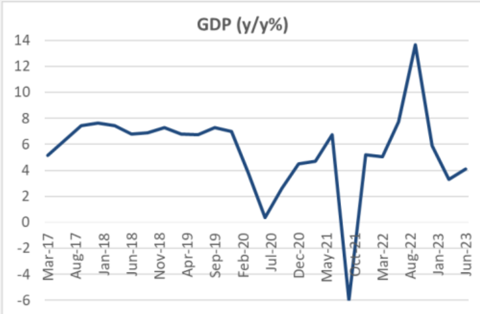
Other key indicators for June however slowed, with the exception of industrial production, which grew at a faster pace of 2.8% y/y in June, a marked pick-up from a mere 0.1% y/y increase a month ago. On the contrary, retail sales grew at almost half the pace in June, by 6.5% y/y (May: +11.5%). The post-reopening boost on consumption appeared to be losing momentum but we expect continuous revival in tourism activities to underpin retail sales. Tourist arrivals were estimated to have grown by leaps and bounds (12.6x higher) to 4.6m in the first five months of 2023, compared to the previous corresponding period, although this accounted for only 63% of the same period in 2019, prior to the Covid pandemic.

Exports widened its decline more than expected to 11.4% y/y in the same month (May: -5.9% y/y), marking its 4th straight month of decline, on broad-based declines in most product categories from food to textile, electronics and iron & steel. Meanwhile, imports fell at a smaller than expected pace of 16.9% y/y (May: -18.4% y/y).

Further moderation in inflation

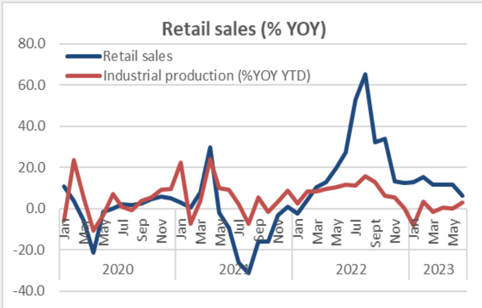
CPI moderated more than expected to 2.00% y/y in June, from May's 2.43% increase. This marked its slowest increase in 16 months, amid bigger declines in transport costs, while most other key price categories saw smaller price gains, suggesting easing price pressure as seen elsewhere in the world. Core CPI also eased to 4.33% (May: +4.54%), its smallest increase since Sept-22.

Figure 1: Bigger than expected pick-up in 2Q GDP growth



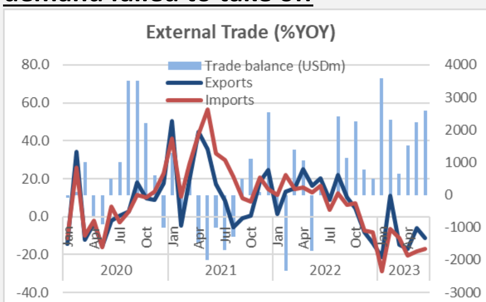
Source: Bloomberg

Figure 2: Moderate growth in both retail sales and production



Source: Bloomberg

Figure 3: Extended declines in exports as global demand slowed and China demand failed to take off



Source: Bloomberg

While slowing inflation rate will give the State Bank of Vietnam more leeway to reduce its borrowing costs to support businesses, we are mindful that the price of food will remain volatile due to global warming. Food inflation remained elevated in the 3.80% ranges in 2Q, up significantly from the sub-3.0% price growth last year.

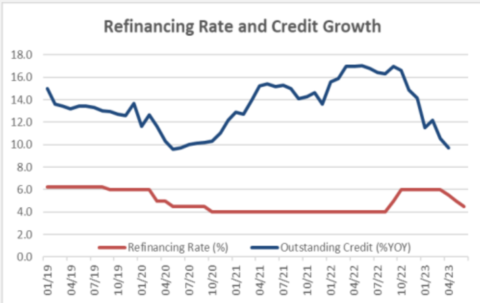
Outlook

Overall outlook is expected to remain challenging in the 2H of the year as Vietnam remains export-dependent, and would not be able to shield itself from the global economic headwinds. This, coupled with subdued outlook in domestic consumption and continued softening in credit demand, would invariably place the full year growth target of 6.5% at risk. In the first half of the year, the Vietnamese economy grew a mere 3.7% y/y, and growth is expected to moderate going forward. Although the State Bank of Vietnam (SBV) has cut the refinancing rates by a cumulative 150bps within the last two months to 4.50% to spur credit growth and economic expansion, it is an uphill task to achieve the full year growth target of 6.5% as this implies a 9.3% growth in 2H2023. Hence, we expect SBV to deliver more rate cuts and stimulus measures going forward to aid businesses and quicken economic growth.

Figure 4: Inflation risks dissipated sharply

Source: Bloomberg

Figure 5: SBV cut rates by 100bps within two months to spur growth



Source: Bloomberg

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