

# Vietnam: 1Q22 GDP growth stabilised at 5.0%

**Broad indicators showed rebound in activity in March**

**Inflation surged to 2.4% amid elevated energy prices**

**Higher credit growth and prices may put SBV in dilemma**

## Summary

The Vietnamese economy grew 5.0% y/y in the 1Q22, missing the Bloomberg consensus forecast of 5.5% y/y. This followed the 5.2% y/y growth in 4Q21 as the economy recovered further from the 3Q21 Covid downturn caused by the government's tighter restrictions. On a y/y basis, the agricultural/forestry/fishery sector grew 2.5%, industry/construction output rose 6.4% and the services sector expanded by 4.5%. The government did not release comparative data for 4Q21.

## General lift in activity after recent setback

The higher frequency indicators showed that activity picked up in March despite the peaking of the Omicron wave, as the government has adopted a flexible approach to its pandemic management. The recovery came following two months of setback as the beginning of the Omicron outbreak coupled with lunar new year holidays ushered in a period of cautious sentiment and subdued activity.

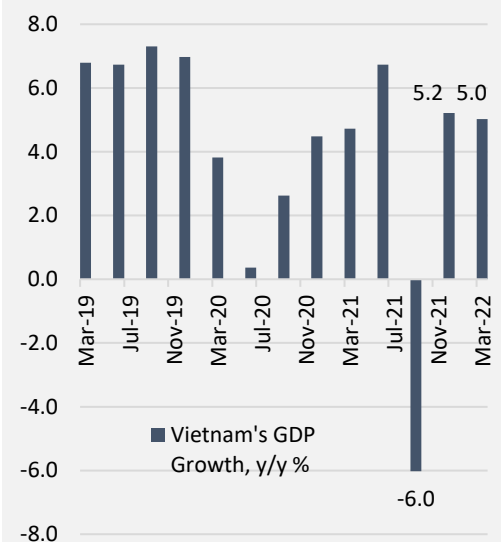
Industrial production rebounded by 22.9% m/m in March, after having fallen for two straight months (Feb: -12.4%), reflecting a broad-based output recovery in mining/quarrying, manufacturing, utilities and water supply. The y/y IPI growth stabilised at 8.5%. International trade recovered from the two-month long setback too. Exports bounced up nearly 46% m/m in March (Feb: -13.8%) and recorded a y/y growth of 14.9% y/y (Feb: +16.0%). Imports rose 28.7% m/m (Feb: -13.8%) and grew 14.8% y/y (Feb: +22.9%)

Similarly, retail sales picked up 2.9% m/m (Feb: -6.3%), snapping a two-month falling streak. Sales were 3.2% y/y higher compared to the same month last year (Feb: +7.3%). CPI inflation surged to a seven-month high of 2.4% y/y, from 1.4% y/y prior and beat the consensus forecast of 2.1%. The higher inflation reflects the jump in transportation costs, attributed to the elevated global energy prices.

## Government optimistic of 2022 growth

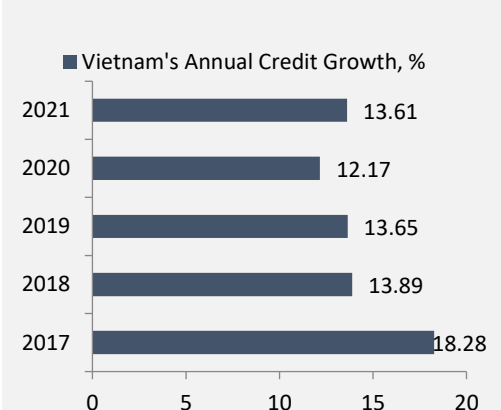
Looking ahead, Vietnam's economic activity looks set to pick up further given that the worst of the Omicron outbreak is over, supported by robust domestic demand and exports. The extensive vaccination rates and the government's adoption of more flexible Covid management, from the previously strict zero Covid suggest have ruled out the possibility of a full-fledged lockdowns that may severely disrupt the economy. The reopening of the borders to foreign travellers in mid-March onwards is a positive sign for the tourism and retail sector but the impacts are likely minimal as the global aversion to travelling is expected to remain this year. Industrial production and exports may also be supported by the solid global demand while China's Covid uncertainties could also benefit the Vietnamese (a rival) manufacturing sector. However, the surging inflation and global supply chain bottlenecks that may be aggravated by the Ukraine-Russia war pose some downside risks to this outlook. The official GDP growth forecast for 2022 stood at 6-6.5%, indicative of the government's optimism this year.

**Figure 1: GDP Growth by Quarter (y/y)**



Source: Bloomberg

**Figure 2: Credit Growth**



Source: CEIC

Vietnam's credit growth had continued to accelerate through the end of 2021 at 13.61%, versus 12.2% in 2020. The latest data point was limited to January 2022 where total credit rose 2.5% y/y, compared to 0.8% y/y in January 2021. The State Bank of Vietnam (SBV) expects credit expansion to be around 14% in 2022 and pledged to rein in poorer quality credit. The rising inflationary pressure and continued acceleration in credit growth may spur the central bank in a dilemma to raise its benchmark rate, now at 4.0% which may thwart the domestic recovery trajectory.

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