

Global Markets Research
Research Alert

Vietnam: GDP growth stabilised in 1Q

- **GDP growth missed consensus forecast as new Covid wave disrupted activity**
- **Strong rebound in industrial output and exports**
- **SBV to keep benchmark rate steady**

Background

Vietnam's GDP growth stabilised at 4.5% y/y in the first quarter of 2021 (4Q20: +4.5%), below consensus forecast for a 5.7% growth as economic activity was disrupted by a new Covid-19 wave in late January through early March. Nonetheless, the pace of expansion was faster compared to the same period in 2020 (+3.8%) at the beginning of the global pandemic.

The agricultural sector grew 3.2% y/y in 1Q (1Q20: +0.1 y/y). Industrial sector growth also accelerated at 6.3% y/y (1Q20: +5.2 % y/y). The services industry expanded by 3.3% y/y (1Q20: +0.6% y/y) as the Vietnamese borders remained closed for international tourism.

Monthly indicators saw further accelerations

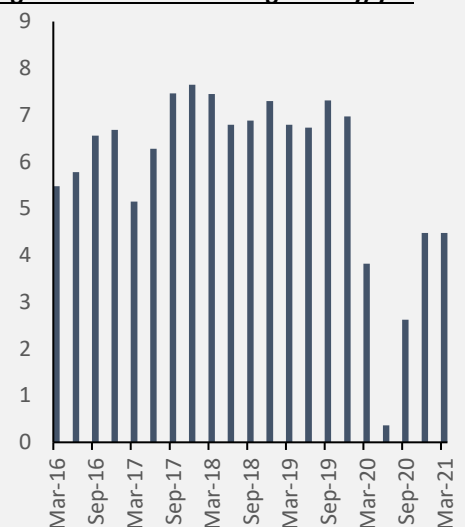
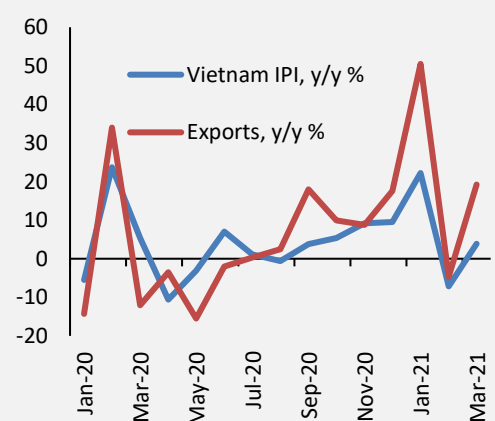
Vietnam's industrial production recovered partially by 3.9% y/y in March after the 7.2% decline in February. On a month-on-month basis though, industrial production (+22.1% m/m) managed to recover February's losses (-21.1% m/m) which had been attributed to the Lunar New Year or Tet celebration.

On the domestic front, retail sales rose 5.1% y/y for the period of January-March, a bigger gain compared to the 4.7% growth observed in the same period last year just ahead of the pandemic lockdown (Note that the Statistics Office did not publish single-month growth.)

CPI inflation accelerated to 1.2% y/y in March after the lacklustre increase in February (+0.7%). On a monthly basis, consumer prices pulled back by 0.3% m/m (Feb: +1.5%) from the festivity-related increases. Prices of food/foodstuffs as well as that of beverages and tobacco decreased sharply after the steep gains in February.

Exports jumped by 19.2% y/y in March (Feb: -4.7%), more than making up from the small festivity-related fall. Imports also recorded a steep 27.7% y/y increase (Feb: +10.5%), both data were partially inflated by the favourably low bases from last year when international trade were severely disrupted by the pandemic in China.

Looking ahead, the economic growth in Vietnam is expected to quicken in the second quarter as domestic activity returned to normal following the stabilising Covid-19 situation. The broad-based increase in global demand, particularly from the US and China suggests that manufacturing sector would be well supported. The services sector growth is expected to continue trailing behind the manufacturing and goods export industries. The pick-up in vaccination rates globally however opens up opportunity for arrangements of some kind of travel bubbles meant for

Figure 1: Vietnam's GDP growth y/y %

Figure 2: IPI vs Export Growth


Source: Bloomberg

leisurely tourism. We continue to expect the SBV to keep its refinancing rate at 4.0% after having reduced it in October last year, in anticipation of further recovery in credit growth.

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