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Global Markets Research

Research Alert

Vietnam: GDP expanded 6.6% in 2Q

- **GDP growth accelerated on favourable low base**
- **Industrial production and retail sales growth slowed in June on y/y basis**
- **Moderate credit growth likely limits inflation; SBV to hold rate steady in 2021**

Background

Vietnam's 2Q GDP growth came in at 6.6% y/y, compared to the consensus forecast of 7.2%. This followed two consecutive quarters of steady growth (+4.5% y/y) and was the fastest expansion since 4Q19, thanks to the favourable low base (GDP growth was merely 0.4% y/y in 2Q last year). The slightly disappointing reading coincides with the tightening of social distancing restrictions as the country struggled to contain the fourth Covid-19 outbreak which started in early May.

For the first six months of 2021, the economy grew 5.6% y/y; this was faster than the 1.8% rate recorded in the same period last year during the onset of the global pandemic and within the pre-pandemic range of 5-7%. The agricultural sector grew 3.8% y/y in the first six months (1H20: +1.2%). The industrial sector which includes construction expanded 8.4% y/y (1H20: +3.0%). The services industry's growth improved to 4.0% y/y (1H20: +0.6%).

Monthly indicators recorded weaker performances

The latest set of monthly indicators underperformed in June as the new outbreak and its accompanying restrictions may weigh on overall activity. Compared to the previous month, industrial production growth slowed substantially to 0.5% m/m (May: +1.6%), reflecting the meagre gain in manufacturing output (+0.3%). This translates to another month of slower growth for industrial production on a y/y basis (+6.8% vs +11.6% y/y), reflecting the impact of the new outbreak and the supply chain delay that were pointed out in the May's IHS Markit Manufacturing PMI survey.

Exports rose steadily by 1.9% m/m in June (May: +1.9%) while imports fell 1.8% m/m (May: +3.7%), leaving the trade deficit smaller at $1b, versus $2b prior. The annual exports growth slowed to 17.3% y/y (May: +35.6%); the same applied to imports (+33.5% vs 56.4% prior).

Our calculations showed that retail sales fell for the second month in June, albeit less considerably at -2.0% m/m (May: -4.1%). Sales in the hotel/restaurant and general services industries both declined. The y/y contraction was larger (-10.9% vs -2.1%) due to

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

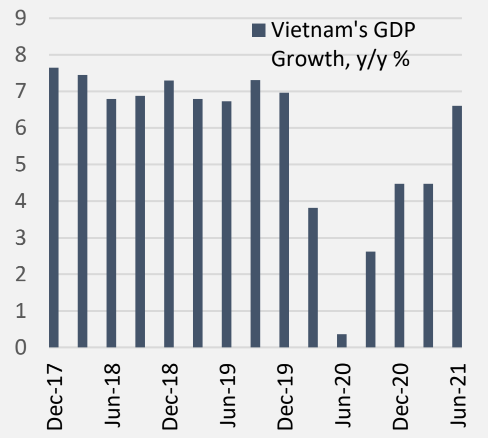
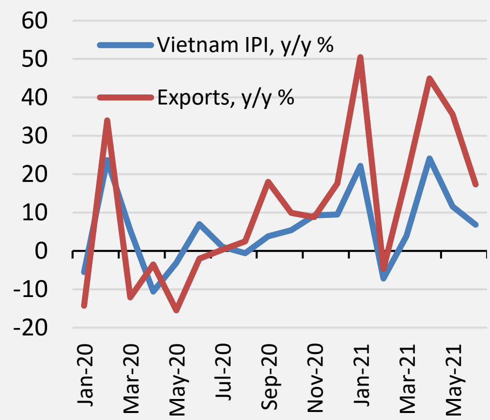


Figure 2: IPI vs Export Growth



Source: Bloomberg

high base distortion. For the first six months of 2021, retail sales rose 4.9% y/y, way below its pre-pandemic growth of above 11%.

CPI inflation held rather steadily at 0.2% m/m (May: +0.2%) as the fall in prices of food was offset by higher cost of transport and housing/construction materials. The former reflects higher global oil prices in recent months while the latter a result of supply chain constraints. The annual rate of CPI meanwhile eased to 2.4% y/y in June, from 2.9% in the previous month.

Credit growth still comparably slow compared to pre-Covid era

Inflation remains an ongoing concern for the State Bank of Vietnam although the pull-back in June offers some temporary relief. Inflation had continued to climb throughout 2020 in Vietnam despite the globally synchronised brief deflationary experience triggered by the pandemic. The SBV said that it would pursue a flexible monetary policy, but we doubt that it would raise its benchmark rate (now at 4%) to counter higher inflation, as growth outlook remains vulnerable to the current Covid wave and any such sporadic outbreak in the future. The central bank also said that YTD credit growth as at 15 June was 5.1% y/y, higher than last year (+3.7% as at end-June), but still well below the above-7% rates recorded in the same period in 2018 and 2019. Moderate credit growth, the absence of tourism-related spending should help rein in inflation in our view, offsetting the impact of higher crude oil prices.

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