

# Vietnam: GDP grew by 8.0% in 2022

**4Q GDP decelerated sharply to 5.9%, albeit above expectations**

**Domestic demand were the economic drivers; exports contracted in Nov-Dec**

**Inflation stayed above government's threshold level of 4% in 4Q**

## Background

In 2022, Vietnam's economy grew at the fastest pace in the Asia region, expanding by 8.0% y/y and beating the governments initial full year target of 6.0%-6.5% y/y. Manufacturing, which grew 8.1% y/y for the year, was the main driver of growth. This was aided by strong services and construction sectors, which surged by 10.0% y/y and 8.2% y/y respectively. Growth in agriculture, forestry and fishing was tamer at 3.4% y/y.

Nevertheless, while the economy has performed well and above expectation, with 4Q GDP growing at 5.9% (consensus estimate +4.7% y/y), this is a sharp deceleration from 13.7% y/y in 3Q. As it is, latest trade data are showing signs of slowing in line with weakening global demand.

## Exports were strong in 2022, but contracted in Nov-Dec

For the whole of 2022, exports grew by 10.6% y/y, while FDI capital implemented for the period 1 Jan-20 Dec 2022 reached US22.3bn, an increase of 13.5% y/y, with the processing and manufacturing industry contributing to the bulk of this.

Nevertheless, exports registered a sharp contraction of -8.4% y/y for the month of November and -14.0% y/y in December (Consensus: -10.2% y/y). The contraction was led by a sharp fall in exports of fishing products, wood products, apparel, electronics & computers, camera & recording equipment, machineries and furniture. In tandem with this, industrial production registered much softer growth of 0.2% y/y (Nov: +5.3% y/y), with softer growth reported in most major industries. The mining sector, in fact, recorded a contraction. This reaffirmed that greater uncertainty in global trade and financial markets could weigh on the recovery in 2023.

## Consumer spending held the fort

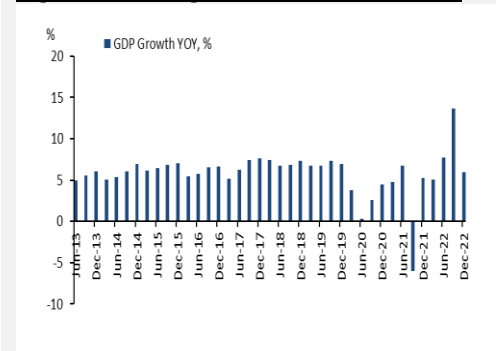
Retail sales remained resilient, registering double digit growth of 17.1% y/y in December (Nov: +17.5% y/y), partially boosted by sales from tourism-related activities and its consequent hotel and restaurants, as well as favourable labour market. Revenue from hotels and restaurants jumped 33.4% y/y in December, while revenue from tourism and travel services were 113.3% y/y higher than the same period last year.

Unemployment rate, meanwhile, has also remained low at 2.3% in 2022. Available data suggests that the number of people currently employed in industrial firms were up 0.8% m/m and 10.2% y/y as of 1st October. Nevertheless, Vietnam's economic recovery has been uneven and tourism has lagged the Government's target 5m. For the whole of 2022, Vietnam had welcomed just 3.7m international visitors.

## Inflation has breached 4%

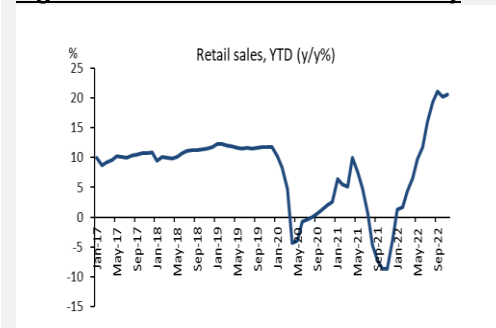
Inflation had remained low in 1H and had been mostly limited to some goods like fuels and related services like transport. Consumers were largely insulated from the global

**Figure 1: GDP growth softened in 4Q**



Source: Bloomberg

**Figure 2: Retail sales has held steady**



Source: Bloomberg

**Figure 3: Exports falter**



Source: Bloomberg

surge in food prices because of ample domestic supplies, pork prices declining from last year's peak, and a preference for rice, which remains cheaper than other grains like wheat. Further, price gains for services, such as health and education, have also been very mild.

Nevertheless, inflation has since picked up in 4Q. Education, housing and construction materials, beverage and cigarettes, textiles, footwear and hats, food and catering service, household appliance, medicine and medical service group as well as culture, entertainment, and tourism groups have since seen uptick in price pressures. Both inflation and core-inflation have breached the government's threshold level at 4.6% and 5.0% in December, suggesting signs of demand-pull inflation. As it is, Vietnam will struggle to keep inflation in check in 2023, with Bui Thuy Hang, the central bank's deputy head of monetary policy department, saying that inflation is forecast at 5.0% in early 2023, higher than government's full year target of 4.5%.

#### **SBV likely to keep key rate unchanged for now**

The State Bank of Vietnam last raised its key benchmark rate by 100bps to 6.00% in October. As it is, the SBV's recent rate hikes were viewed as in line with regional and global trends as tightened financial condition in the developed economies have had a knock-on effect on capital and currency markets, including the dong. The move is also seen to limit rising inflation but at this juncture, we expect no change in the benchmark rate for 2023 especially since the central bank's deputy governor Dao Minh Tu has recently flagged risk of rising bad debts amongst corporate loans (Vietnam banks' bad debt is reported at 2.0%).

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