

Global Markets Research
Economics - Vietnam

Vietnam expanded 6.21% this year

Vietnam grew 6.21% in 2016 amid broad based expansion in the domestic economy. Following the worst drought in nearly a decade in 1H, the agriculture sector rebounded from two back to back contractions and staged a 1.36% growth this year. Despite falling short of last year's 9.64% growth, the industry/construction sectors expanded at the pace of 7.57% in 2016 and remained the main catalysts of growth. Zooming into this month's data, exports quickened to 16.50% YOY (November: +16.10% YOY) while industrial production staged a strong rebound and grew 8.30% YOY (November: +2.00% YOY). Retail sales expanded 10.20% cumulatively in 2016, adding to the string of positive readings and reflecting a healthy level of household spending. Looking at the broader picture, Vietnam is only behind India, the Philippines and China even when GDP growth falls short of its 6.70% target for this year, and continued to outperform other countries within this region. Moving forward, the pick-up in global demand and contained downside risks from the government's soaring debt will put the country on track to hit its goal of 6.70% growth set for 2017.

GDP grew 6.21% YTD YOY in 2016, short of the expected 6.70% goal

Vietnam's economy expanded 6.21% this year, building on the 5.93% annual growth in January-September. Confronting the worst drought in nearly a century in the first half of the year, the agriculture sector had caused losses of VND 15 trillion to farmers in Mekong Delta and Central Highlands, according to the agriculture minister. After a 0.18% contraction in 1H, the sector grew 0.65% in the January-September period before advancing 1.36% for the full year. The industry/ construction sector remained the pillar of growth, surging 7.57% in 2016 after a 7.50% growth in January-September. The manufacturing sector staged a robust 11.90% growth while the electricity and gas sector expanded 11.60%. Building activities was equally encouraging, expanding 10.00% from last year. Meanwhile, the services sector grew 6.98% this year. Banking & finance (+7.79%), lodging services (6.70%), and transport & warehouse (6.30%) were the biggest contributors to growth in the services sector.

Exports climbed 16.50% YOY in December (November: +16.10% YOY)

Exports gathered steam in December, growing at a robust pace of 16.50% to USD 16.0 billion after increasing 16.10% YOY in November. The surge in exports of telephones & parts (December: +67.90% YOY vs November: 17.60% YOY), coal (December: +260.90% YOY vs November: +121.10% YOY) and petroleum product (December: +35.60% YOY vs November: +5.60% YOY) compensated for the contraction in textiles exports (December: -9.40% YOY vs November: +11.00% YOY) and the slowdown in footwear exports (December: +3.10% YOY vs November: +10.30% YOY),

*Imports increased 14.00% YOY in December
(November: +20.10% YOY)*

Imports growth softened to +14.00% YOY (USD: 16.30 billion) in December after advancing 20.10% YOY in November. Slower shipments from overseas was led by the pullback in imports of steel (December: +13.60% YOY vs November: +36.00% YOY), fabrics (December: +7.30% YOY vs November: +13.80% YOY) and machinery & tools (December: +13.00% YOY vs November: +24.70% YOY).

Trade balance remained in deficits in the past three months, weighing down on trade surplus for the year. In December, trade deficits came in at USD 0.30 billion from USD 0.24 billion a month ago. For 2016, trade surplus amounted to USD 2.68 billion.

*IPI quickened to 8.30% YOY in December
(November: +2.00% YOY)*

Industrial production growth quickened as the central region recovered from a devastating flood. IPI expanded 8.30% in December (November: +2.00% YOY) amid higher output in the manufacturing (December: +12.90% YOY vs November: +4.70% YOY), electricity (December: +10.80% YOY vs November: -3.00% YOY) and water supply (December: +9.40% YOY vs November: +1.00% YOY) categories. The only sector behind the curve was mining & quarrying (December: -7.40% YOY vs November: -5.10% YOY) amid slow recovery in crude oil prices.

*Retail sales rose 10.20% YOY this year, picking
up from 9.50% YOY in January-November*

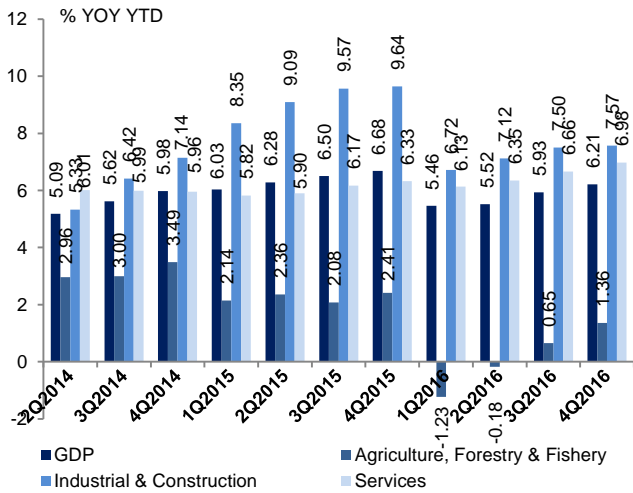
Painting the picture of robust household consumption, retail sales staged a strong annual growth of 10.20% in 2016. It grew 9.50% cumulatively in the first eleven months of the year. Tourism (December: +12.00% YOY vs November: +11.40% YOY), hotel/ restaurants (December: +10.70% YOY vs November: +10.40% YOY) and trade activities (December: +10.20% YOY vs November: +9.40% YOY) depicted healthy level of household spending.

*Inflation rose 4.74% YOY in December
(November: +4.52% YOY)*

Meanwhile, consumer prices index (CPI) accelerated 4.74% YOY this month (November: +4.52% YOY) due to higher school fees and outrageous rise in healthcare costs. Healthcare related expenses increased a painful 55.72% and upside pressure will continue to stoke headline CPI growth. In addition, cost of education remained elevated (December: +10.81% YOY vs November: +10.86% YOY). The 1.12% YOY decline in cost of transportation and 1.12% YOY decline in cellphone/internet bills have relatively muted impact on the CPI basket.

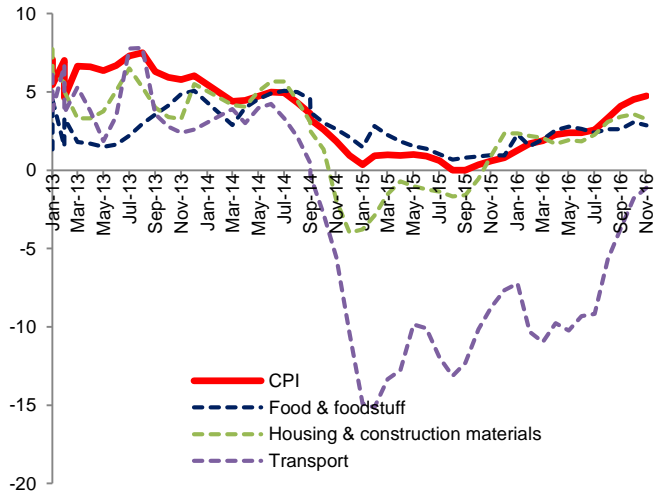
Weather related factors aside, softer global demand resulted in moderation of the industry/ construction sector which was the primary growth catalysts for Vietnam. Looking at the broader picture, Vietnam is only behind India, the Philippines and China even when GDP growth falls short of its 6.70% target for this year, and continued to outperform other countries within this region. Outlook for next year is upbeat in anticipation of broad recovery in global demand. Barring escalating downside risks from the government's soaring debt, the country stands a better chance to hit its goal of 6.70% growth set for next year.

Figure 1: GDP Growth (%YOY YTD)



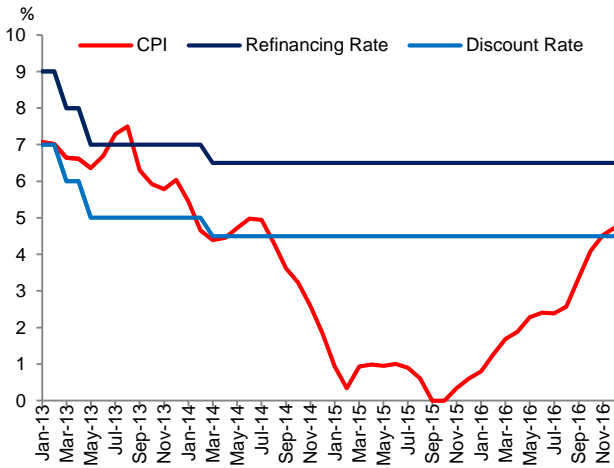
Source: General Statistics Office, Vietnam, and Bloomberg

Figure 2: CPI by Major Component (% YOY)



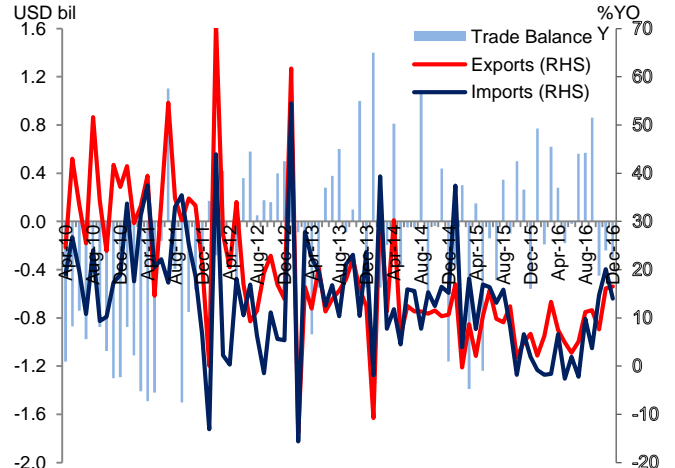
Source: General Statistics Office, Vietnam and Bloomberg

Figure 3: CPI (%YOY) vs Refinancing & Discount Rates



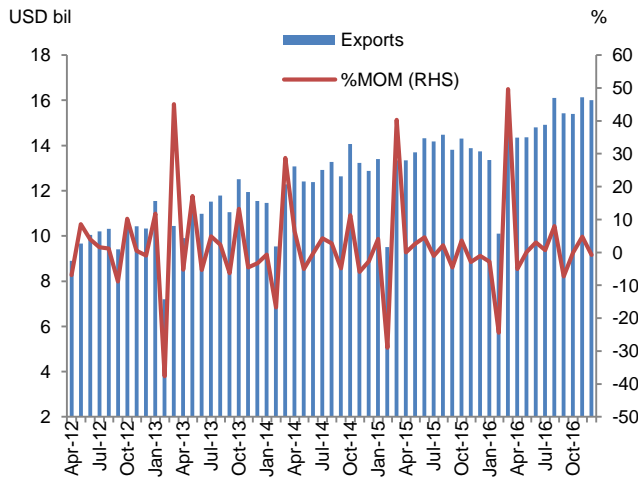
Source: General Statistics Office, Vietnam, and Bloomberg

Figure 4: External Trade Performance



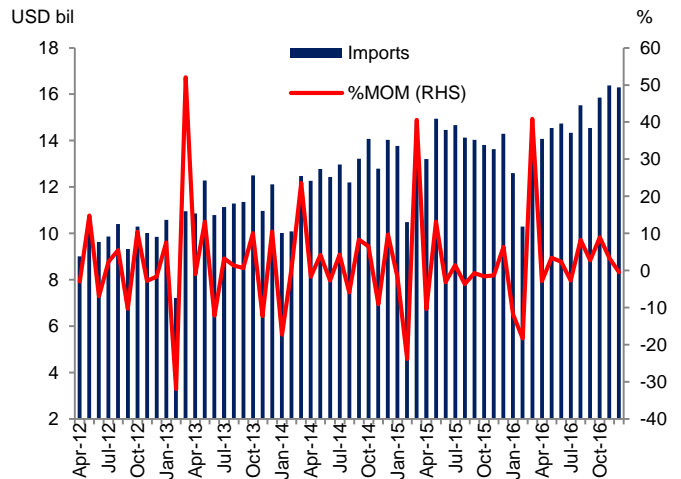
Source: General Statistics Office, Vietnam, and Bloomberg

Figure 5: Exports Growth by Value



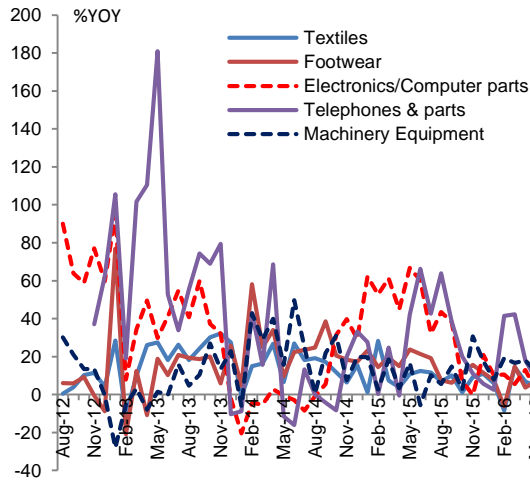
Source: General Statistics Office, Vietnam, and Bloomberg

Figure 6: Imports Growth by Value



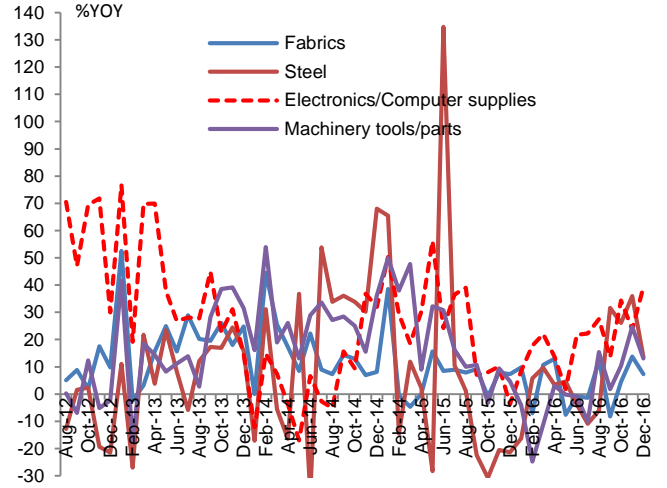
Source: General Statistics Office, Vietnam, and Bloomberg

Figure 7: Top 5 Products Exports Growth



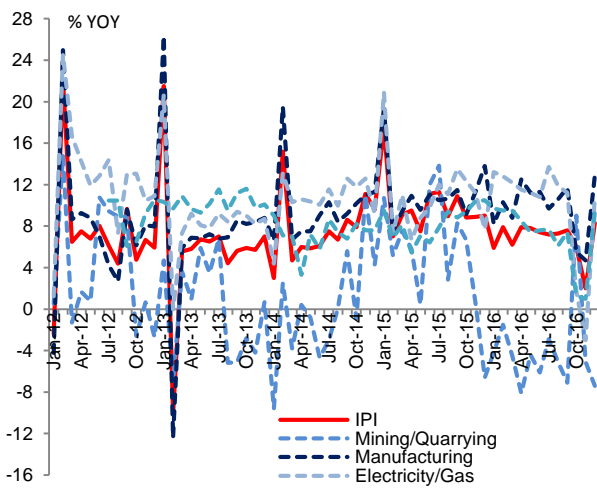
Source: General Statistics Office, Vietnam, and Bloomberg

Figure 8: Top 4 Products Imports Growth



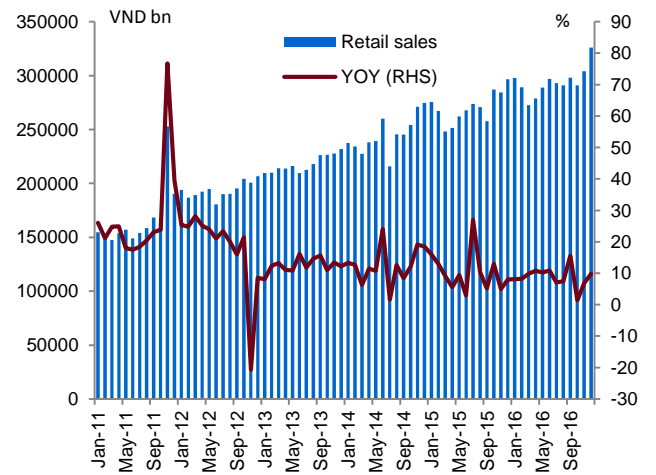
Source: General Statistics Office, Vietnam, and Bloomberg

Figure 9: Industrial Production Growth



Source: General Statistics Office, Vietnam, and Bloomberg

Figure 10: Retail Sales Growth



Source: General Statistics Office, Vietnam, and Bloomberg

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