

VIETNAM MACRO MONITORING



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WHAT'S NEWS?

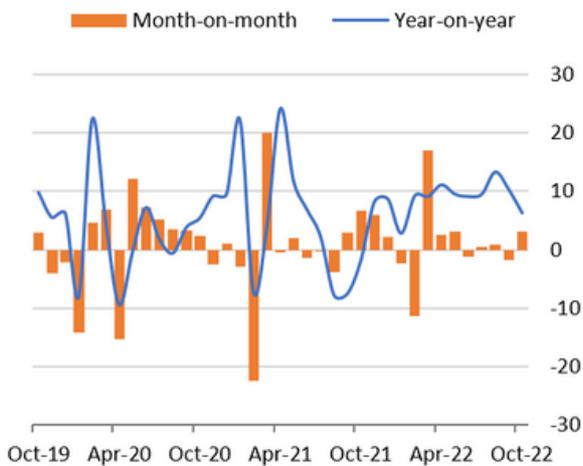
- Industrial production and retail sales moderated in October as both domestic and external demand slowed.
- Exports growth slowed to a 12-month low of 4.8 percent (y/y) as external demand weakened amid high inflation, tightening global financial conditions, and heightened global uncertainties.
- FDI commitment bounced back strongly thanks to a jump in greenfield investment in electricity, gas, and water supply while FDI disbursement maintained a robust growth.
- Despite falling fuel prices, CPI inflation increased from 3.9 percent (y/y) in September to 4.3 percent (y/y) in October, driven by faster rise in food prices, which account for 21.3 percent of the CPI basket.
- Credit growth moderated to an estimated 16.5 percent (y/y) in October amid tightening domestic financial conditions. Average overnight interbank interest rate rose from 4.9 percent in September 2022 to a new record high of 5.8 percent in October. The rate also became more volatile in October.
- To lessen depreciation pressure on the Vietnamese dong, the State Bank of Vietnam increased exchange rate flexibility by widening the VND/USD trading band, from +/- 3 percent to +/- 5 percent and raised key interest rates by another 100 basis points in October 2022.
- As of end October, the national budget registered a US\$10.7 billion surplus. With this budget surplus and amid rising borrowing costs in the domestic market, the government bond issuance in the first 10 months of 2022 equals to only 34.9 percent of the plan, compared to 72.5 percent a year earlier.
- The economy faces strong headwinds. Slowing external demand and tightening global financial conditions are affecting the exchange rate. Rising inflation and tightening domestic financial conditions could affect domestic demand in the coming months.
- As US Fed is expected to continue raising interest rates, Vietnamese monetary authorities could consider allowing further flexibility in the exchange rate, including through a quicker pace of depreciation of the reference rate. This could be complemented with continued use of reference interest rates, especially if faster depreciation leads to higher inflation and inflation expectations rise. Given the persistence of exchange rate pressures, direct FX sales should be used judiciously to preserve the FX reserves. Fiscal and monetary policy coordination will be critical to ensure price stability in light of accelerating domestic core inflation. Moreover, recent banking sector volatility calls for increased vigilance and intensified supervision efforts.

RECENT ECONOMIC DEVELOPMENTS

Industrial production growth moderated due to weak external demand

The industrial production index increased by 6.3 percent (y/y) in October, compared to 10.3 percent rate a month earlier (Figure 1). Part of the deceleration can be attributed to the dissipating low-base effects. However, weaker external demand is likely to be another important factor, as growth in the EU, US and China is slowing. The manufacturing PMI fell from 52.5 in September to 50.6 in October 2022, staying just above the 50 benchmark but reaching the lowest reading since October 2021, corroborating the deceleration in manufacturing growth.

Figure 1: Industrial Production Index
(Percent, NSA)



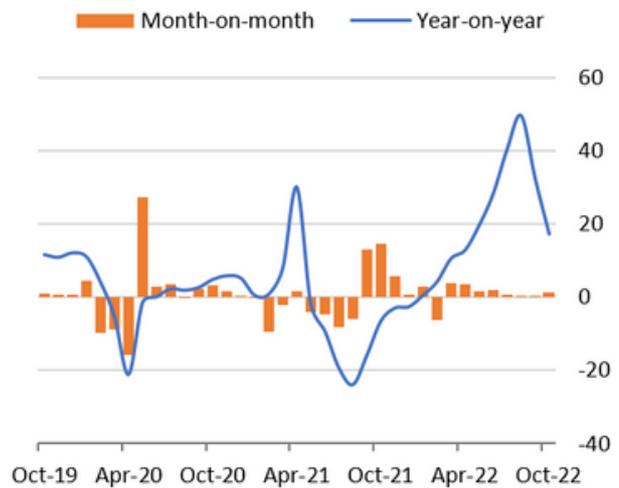
Retail sales continued to grow, but at a slower pace

Retail sales increased by 17.1 percent (y/y) in October, compared to the 32.3 percent (y/y) rate a month earlier (Figure 2). On the one hand, as with industrial production, this sharp slowdown is partly due to waning low-base effects. On the other hand, it also reflects weakening domestic demand as the consumption rebound experienced in the first three quarters of the year appears to be fading amid rising inflation. Sales of goods increased by 9.6 percent (y/y), which was lower than pre-pandemic growth rates of around 12 percent (y/y). Sales of accommodation and catering and travelling services, which had exceeded the pre-pandemic level as of August 2022, grew by 12.2 percent (y/y), which is lower

than in October 2019.

After a strong recovery between March and August 2022, international tourism plateaued in September and October. The country received 484,400 international visitors in October, 12.2 percent higher than in September, yet only 30 percent of the level in October 2019.

Figure 2: Retail Sales
(Percent, NSA)



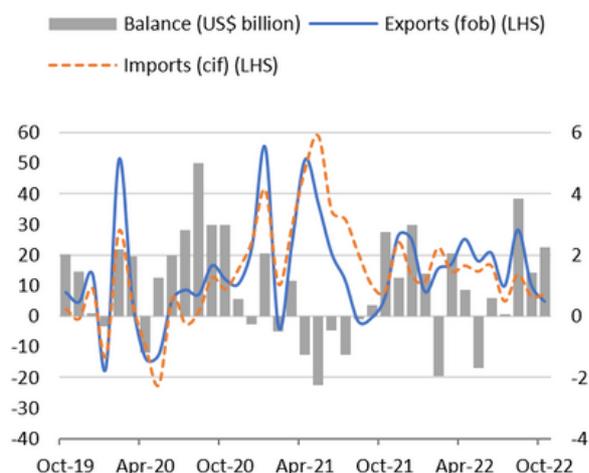
The merchandise trade balance registered a surplus in October, but export growth slowed.

While the trade balance registered a US\$2.3 billion surplus in October - the fifth month in a row - export growth slowed from 10.3 percent (y/y) in September to 4.8 percent (y/y) in October, the lowest rate since October 2021 (Figure 3). This slowdown in exports growth was driven partly by waning low-base effects and partly by weak external demand.

Merchandise imports ticked up slightly from 6.5 percent (y/y) in September to 7.1 percent (y/y) in October while the composition of imports varied. This increase is driven a rebound of imports in electronics (from -4.6 percent (y/y) in September to 0.8 percent (y/y) in October) and machinery (from 1.5 percent (y/y) to 4.0 percent (y/y) during the same period). However, imports of fabrics and inputs for textiles, garment and footwear manufacturing slowed from 22.1 percent (y/y) to 7.8 percent (y/y). Imports of fuels (coal, crude oil, petrol, and liquefied petroleum gas) also slowed

from 109 percent (y/y) to 57.6 percent (y/y) during the same period, thanks to both slower volume growth (from 31.2 percent (y/y) to 11.4 percent (y/y)) and lower prices.

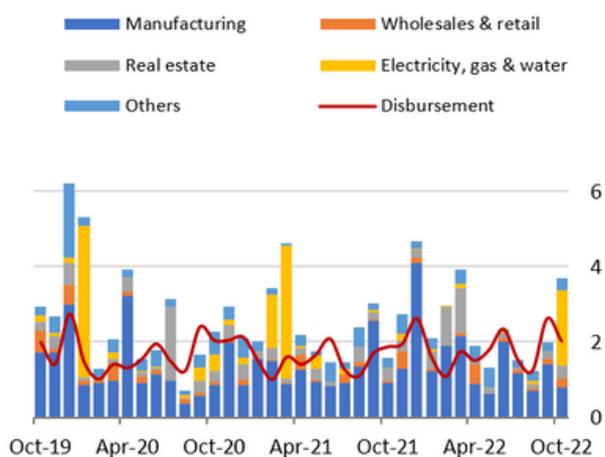
Figure 3: Merchandise Trade
(Percent, y/y, NSA)



FDI commitment rebounded

Total investment commitment jumped to US\$3.7 billion in October, up 133 percent (y/y) and the second highest level in 2022. This improvement was driven by a lump sum greenfield investment (US\$2.0 billion) in electricity, gas, and water supply. On the other hand, investment in manufacturing remained 13.1 percent lower than a year earlier (Figure 4). Over the first 10 months of 2022, FDI commitments reached US\$22.5 billion, down 5.4 percent compared to a year earlier. FDI disbursement remained strong, growing by 8.1 percent (y/y) in October and by 15.2 percent (y/y) over the first 10 months.

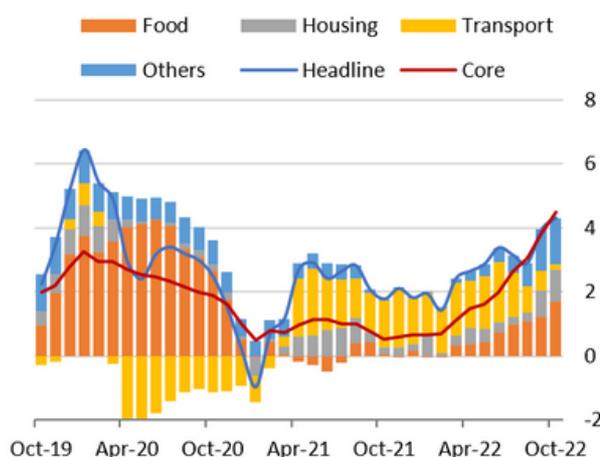
Figure 4: Foreign Direct Investment
(\$US billion, NSA)



Headline and core inflation accelerated

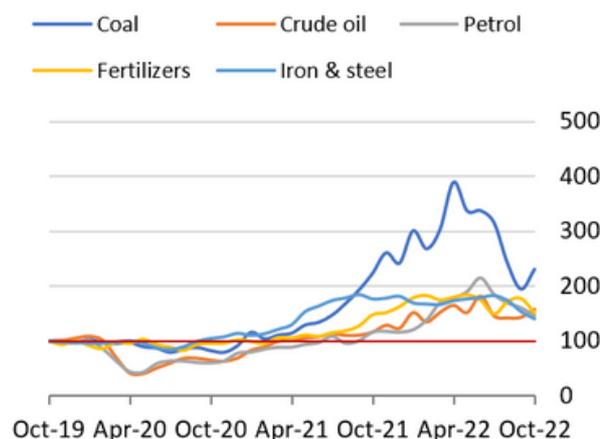
The Consumer Price Index (CPI) inflation accelerated from 3.9 percent in September to 4.3 percent in October, exceeding the 4 percent target of the State Bank of Vietnam for the first time since April 2020 (Figure 5). The contribution of transport continued to diminish significantly as prices of gasoline and diesel fell by 6.0 percent (m/m) and 0.6 percent (m/m) in October, respectively, and were 2.1 percent lower than a year earlier. Instead, accelerating inflation was driven by a faster rise in food prices from 2.8 percent (y/y) in September to 5.0 percent (y/y) in October 2022, the highest rate since December 2020. This group accounted for 21.3 percent of the CPI basket. Core inflation, which excludes food, energy, and price-controlled items (education and health services) continued to accelerate from 3.8 percent (y/y) in September to 4.5 percent in October, a new record high.

Figure 5: Contribution to CPI Inflation
(Percent & percentage point, y/y)



Major imported input prices continued to ease

Figure 6: Imported Input Prices
(Oct 2019 = 100)



Average petrol import price dropped for the fourth month in a row (down 9.0 percent (m/m)) and is expected to help ease inflationary pressure in the domestic market. Price of imported fertilizers also fell by 15.0 percent (m/m), almost to the level observed a year ago. Price of steel also fell for a third month of decline (down 8.5 percent (m/m)) and 20.3 percent lower than the level a year earlier. Although price of imported coals increased by 18.7 percent (m/m) after three months of decline, it was only 3.3 percent higher than a year earlier.

Credit growth moderated but remained high

After recording 16.9 percent (y/y) in September, credit growth moderated to 16.5 percent (y/y) in October (Figure 7). This slowdown reflected the impact of the State Bank of Vietnam tightening domestic financial conditions by raising key interest rates by a total of 200 basis points in September and October. Average overnight interbank interest rate reached a new record high of 5.8 percent in October from 4.9 percent in September 2022, and substantially higher than the 0.65 percent rate recorded a year earlier. The rate also became more volatile, varying from 3.1 percent to 8.4 percent in October.

Figure 7: Credit growth
(Percent, NSA)

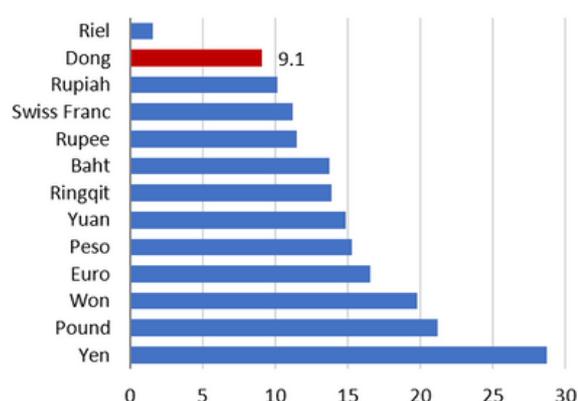


The Vietnamese dong depreciated against the U.S. dollar

Amid tightening of global financial conditions and the strengthening of the U.S. dollar, the official VND/USD exchange rate continued to depreciate in October 2022. As of 3 November 2022, the Vietnamese dong had lost 9.1 percent of its value against the U.S. dollar since the beginning of this year. However, this pace of local currency

depreciation was lower than other currencies (Figure 8). Given strong pressure on the local currency, on October 17, the SBV increased exchange rate flexibility by widening the VND/USD trading band for the first time since August 2015, from +/- 3 percent to +/- 5 percent. The central bank also raised two key policy interest rates by another 100 basis points on 25th of October : the discount rate from 3.5 percent to 4.5 percent (exceeding its pre-pandemic rate of 4.0 percent) and the refinancing rate from 5.0 percent to 6.0 percent (equal to its pre-pandemic rate). Additionally, the cap on short-term interest rate on deposits denominated in local currency (one month to less than six months) was increased from 5.0 percent to 6.0 percent.

Figure 8: Rate of Currency Depreciation against the U.S dollar (percent)



Note: Comparison between 31-Dec-21 and 03-Nov-22. Positive value indicates a depreciation against the U.S. dollar.

The fiscal balance registered a small surplus

The monthly budget balance registered a US\$0.2 billion surplus in October after a brief fall into deficit in September. The surplus was achieved despite a 6.7 percent (y/y) decrease in total revenue, the first drop in 2022. Total expenditure increased by 11.8 percent (y/y), mostly reflecting low-base effects. As of end October 2022, the government collected 3.7 percent more than the planned total revenue for the year, but spent 68.3 percent of planned total expenditure, resulting in a US\$10.7 billion budget surplus. Public investment disbursement reached 56.6 percent of the plan approved by the National Assembly, more than two percentage points higher than a year ago (53.9 percent) while 75.7 percent of planned current expenditures were spent, lower than to the 77 percent rate achieved a year earlier.

With the budget balance in surplus in October, the State Treasury issued only US\$1.0 billion worth of government bonds denominated in local currency, all of which had long maturities (ten years or longer). Over the first 10 months of 2022, total bond issuance reached 34.9 percent of annual plan, much less than in the same period of 2021 (72.5 percent of planned).

The cost of borrowing continued to rise, with the yield on 10-year government bonds increasing from 3.0 percent to 4.0 percent in the primary market (the sharpest increase since the pandemic), narrowing the gap with the secondary market, where the rate reached 5.2 percent in October. Rising borrowing costs reflected the tightening domestic financial conditions as the SBV raised interest rates to stabilize the domestic currency amid slowing external demand, accelerating domestic inflation, and the strengthening U.S. dollar.

To watch:

The economy faces strong headwinds. Slowing external demand and tightening global financial conditions are affecting the exchange rate. Rising inflation and tightening domestic financial conditions could affect domestic demand during the next months.

As the US Fed is expected to continue raising interest rates, Vietnamese monetary authorities could consider allowing further flexibility in the exchange rate, including through a quicker pace of depreciation of the reference rate. This could be complemented with continued use of reference interest rates, especially if faster depreciation leads to higher inflation and inflation expectations rise. Given the persistence of exchange rate pressures, direct FX sales should be used judiciously to preserve the FX reserves. Fiscal and monetary policy coordination will be critical to ensure price stability in light of accelerating domestic core inflation.

Sources and notes:

All data are from Haver and sourced from the Government Statistics Office (GSO) of Vietnam, except: Government budget revenues and expenditures (Ministry of Finance), FDI (MPI); PMI and producer price inflation (survey by Nikkei and IHS Markit; Purchasing Managers' Index is derived from a survey of 400 manufacturing companies and is based on five individual indexes on new orders, output, employment, suppliers' delivery times (and stock of items purchased). It is seasonally adjusted. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction; while 50 indicates no change); financial sector data, including credit information (State Bank of Vietnam); credit and deposit growth in January and February 2022 (calculated by World Bank staff based on data from local news); number of confirmed COVID-19 cases, deaths and COVID-19 vaccine doses administered (Our World in Data), community mobility (the baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020, and changes for each day are compared to a baseline value for that day of the week) (Google); Treasury bonds (Hanoi Stock Exchange and Vietnam Bond Market Association); real effective exchange rate (World Bank Global Economic Monitor Database), daily market exchange rate from Financial Times.

SA=Seasonally Adjusted; NSA=Not Seasonally Adjusted; LHS = Left-hand Scale; FOB = Free on Board; CIF = Cost, Insurance, and Freight