

VIETNAM MACRO MONITORING



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WHAT'S NEWS?

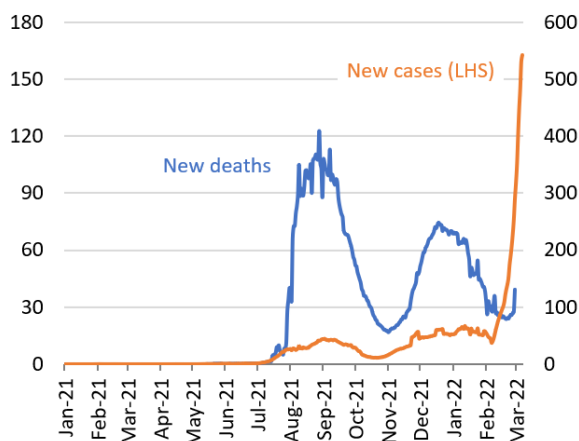
- New COVID-19 cases surged, reaching over 100,000 cases per day in the second half of February after the Tet holiday, causing major mobility indicators to fall.
- Available data suggests continued recovery of domestic economic activities with industrial production growing by 8.5 percent (y/y) and retail sales by 3.1 percent (y/y) although the effects of the recent surge in COVID-19 infections on labor supply, production and consumption may not have been fully captured.
- The merchandise trade balance deteriorated from a surplus of US\$1.4 billion in January to a deficit of US\$2.0 billion in February as imports grew much faster than exports. Compared to a year ago, FDI commitment slowed while FDI disbursement increased for the third month in a row.
- Despite rising energy prices, CPI inflation remained subdued thanks to relatively stable food prices and still weak domestic demand. Credit demand remained strong after the Lunar New Year, keeping overnight interbank interest rate at 2.56 percent at the end of February, compared to less than one percent at the end of 2021.
- Budget balance was in US\$1.1 billion surplus in February as revenue performance remained strong. Expenditures increased thanks to improved disbursement of public investment.
- While the economy continues to show resilience and is recovering, downside risks have heightened as OMICRON infections are sweeping the country and the Russia-Ukraine conflict has increased uncertainty about global economic recovery, created new strains on global supply chains, and raised inflationary pressures. Commodity prices have risen sharply and may rise further in the short term. Continued administration of the vaccine boosters and renewed health guidance are critical to manage the OMICRON wave. As growth in the U.S., EU, and China - Vietnam's largest export destinations - may be affected, authorities should encourage exporters to seek new markets and innovate into new products through global value chains (GVCs) and existing free trade agreements (FTAs) to strengthen export resilience. While keeping track of domestic price developments is also warranted, reducing the environmental protection tax would not be the right policy to provide oil price relief.

RECENT ECONOMIC DEVELOPMENTS

The number of new COVID-19 cases soared as people returned to work after the Lunar New Year

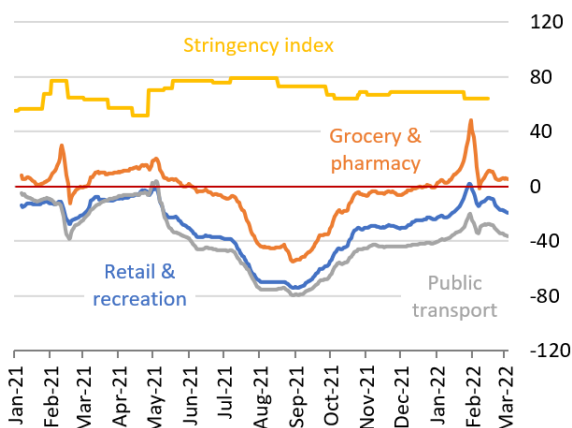
The number of new cases rose steeply, reaching over 100,000 cases per day by the end of February (Figure 1). The number of new deaths also picked up although case fatality rate, which is the ratio between total confirmed deaths and total confirmed cases continued to fall. As of 7 March, all-time confirmed cases reached 4.6 million, the death toll reached 40,900. Nearly 79 percent of population had been fully vaccinated against COVID-19, and 41.2 percent received boosters.

Figure 1: Daily New Cases and New Deaths
(Cases in thousands, 7-day moving average)



Mobility indicators fell as number of new cases surged

Figure 2: Mobility Trends and Government Stringency
(% change in mobility compared to baseline in the period Jan 3–Feb 6, 2020, 7 days moving average)

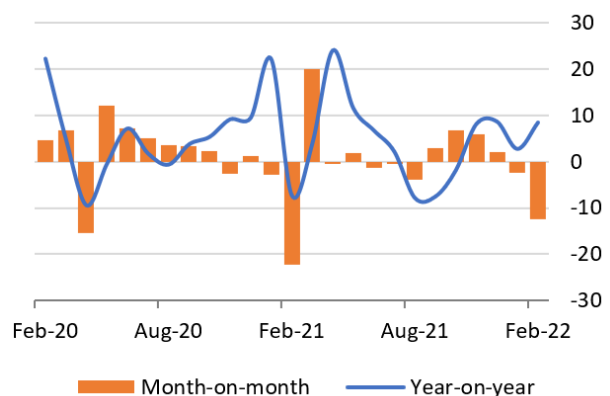


Mobility rose post the Lunar New Year as people returned to work. However, it has been affected by the surge in infections that started in the second half of February as more people had to self-isolate while others may have become more hesitant to socialize and commute by public transport (Figure 2).

Industrial production accelerated but may not yet reflect the effect of the new surge in COVID-19 infections on production

Industrial production index growth accelerated to 8.5 percent (y/y) from 2.8 percent (y/y) in January, suggesting a broad-based improvement in manufacturing (Figure 3). Particularly, after falling in January, production of computers, electronics, and optical products bounced back, growing by 9.1 percent (y/y). Apparel manufacturing maintained strong performance with a 24.7 percent (y/y) growth. The manufacturing PMI jumped from 53.7 in January to a ten-month high of 54.3 in February, indicating continued improvement in business conditions in the country. However, the impact of the surge in infections on production may not be fully reflected in the available data as both the monthly industrial production index and PMI index are based on data collected by mid-February.

Figure 3: Industrial Production Index
(Percent, NSA)

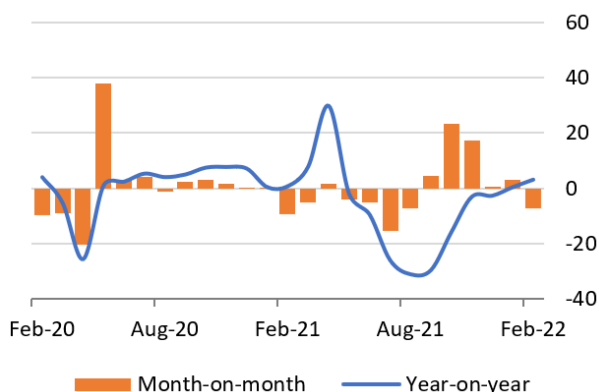


Retail sales continued to recover

Retail sales grew by an estimated 3.1 percent (y/y) in February, surpassing the January growth rate (Figure 4). Sales of consumer services continued to recover, increasing by 5.9 percent (y/y), the first expansion since May 2021, as accommodation and catering services sales grew strongly (12.6 percent

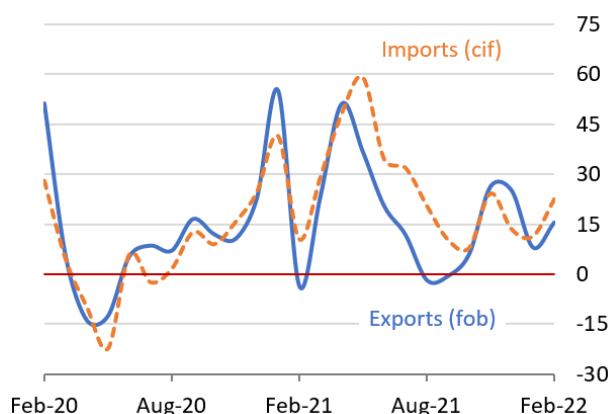
(y/y). Sales of goods increased by 2.4 percent (y/y). Like in the case of industrial production, retail sales estimates may not fully capture the effects of the surge in infections and the change in consumer behavior in the second half of February as seen in the fall in mobility, especially to retail and recreation places.

Figure 4: Retail Sales
(Percent, NSA)



Merchandise trade balance deteriorated as imports outpaced exports

Figure 5: Merchandise Trade
(Percent, y/y, NSA)

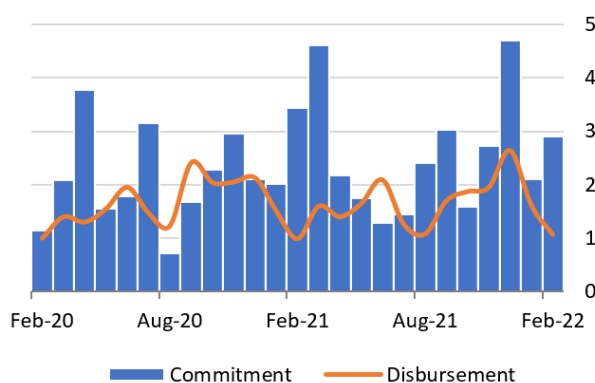


Merchandise exports and import grew by 15.5 percent (y/y) and 22.3 percent (y/y), respectively, surpassing their January growth rates (Figure 5). With imports growing much faster than exports, trade balance deteriorated from a surplus of US\$1.4 billion in January to a deficit of US\$2.0 billion in February. Higher export growth rate could be attributed to phones, computers and electronics and machinery, whose exports grew by 6.2 percent (y/y) in February, compared to an 8.6 percent (y/y) fall in January. Exports of textiles and garment remained strong, growing by 25.8 percent (y/y). Strengthening imports partly reflect a jump in

imports of phones, computers and electronics components from 14.9 percent (y/y) in January to 32.3 percent (y/y) in February. Imports of petroleum products also increased by 146.8 percent (y/y), clearly reflecting rising oil prices. By trading partners, exports to the U.S. remained robust, expanding by 14.6 percent (y/y) while exports to China rebounded, growing by 19.5 percent (y/y) after a 15.2 percent (y/y) drop in January.

FDI commitment slowed while FDI disbursement continued to recover strongly

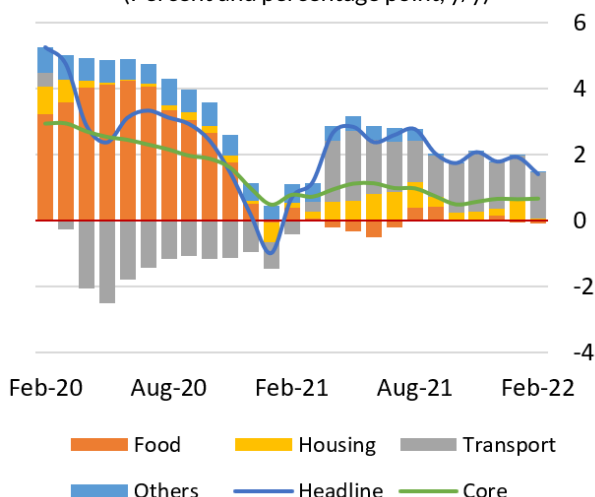
Figure 6: Foreign Direct Investment
(US\$ billion, NSA)



Vietnam attracted US\$ 2.9 billion of FDI commitment in February, 15.9 percent lower than a year ago (Figure 6). Most of the commitments were made by existing firms intent on expanding their production facilities. This included two sizeable projects in real estate and electronics, each worth more than US\$900 million. The disbursement of approved FDI projects increased by 7.9 percent (y/y) in February, a third month of increase.

Inflation remained subdued despite rising fuel prices

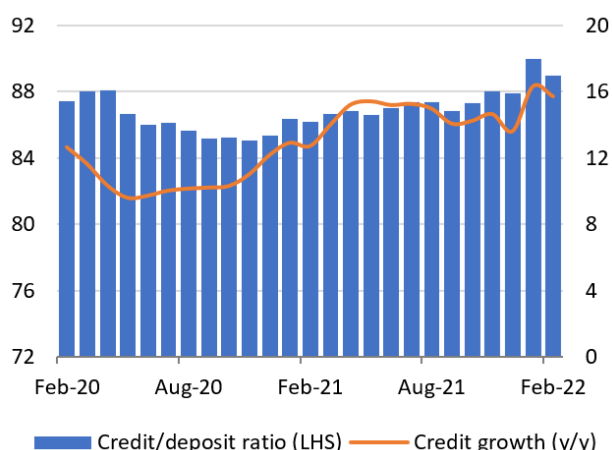
Figure 7: Contribution to CPI Inflation
(Percent and percentage point, y/y)



The Consumer Price Index (CPI) rose by 1.4 percent (y/y), the lowest increase since April 2021 (Figure 7). Gasoline and diesel prices, which increased 5.8 percent (m/m) and 47.1 percent (y/y) continued to contribute to higher transport costs, and in turn to the rise in consumer prices. By contrast, food prices were relatively stable compared to a year ago thanks to well-maintained domestic supply chains. Core CPI, which excludes food, energy, and items whose prices are administered by the government increased by only 0.7 percent (y/y), comparable to rates in the last two months, reflecting weak recovery of domestic demand.

Credit demand remained strong after the Lunar New Year

Figure 8: Credit Growth
(Percent, NSA)



Credit to the economy grew by 15.7 percent (y/y) in February, down slightly from 16.3 percent (y/y) in January (Figure 8). However, this was high, compared to 2021, suggesting that demand for credit remained strong. Consequently, overnight interbank interest rates stayed at 2.56 percent as of the end of February, comparable to the rate of 2.42 percent in January and 1.8 percentage points higher than in December 2021.

The budget remained in surplus while the execution of public investment projects improved

Budget balance registered a surplus of US\$1.1 billion in February, and US\$4.2 billion in the first two months of 2022. Revenues grew by 5.3 percent (y/y) in February while expenditures increased by 6.1 percent (y/y) thanks to improvements in the execution of public investment program. Over the first two months, the government collected 22.9 percent of total planned annual revenues,

suggesting that the effects of the tax relief from the Economic Recovery Support Program are not yet evident on revenue collection. The government also spent 12.8 percent of planned expenditures. Public investment disbursement improved significantly, reaching 8.6 percent of the target set by the Prime Minister, much higher than the rate 5.1 percent recorded in the same period last year.

The State Treasury issued US\$412 million worth of government bonds denominated in local currency in February, raising total bond issuance to US\$1.4 billion, or 8.1 percent of annual plan in the first two months. All issued bonds had long maturities (ten years or longer). Ample liquidity continued to keep borrowing costs low, with the yield of 10-year Treasury bonds in the primary market stable at 2.12 percent at the end of February.

To watch:

As the number of new confirmed COVID-19 cases is surging, continued administration of the vaccine boosters and renewed health guidance are critical. The Russia-Ukraine conflict has increased uncertainty about global economic recovery, created new strains on global supply chains and heightened inflationary pressures. Authorities should encourage exporters to seek new markets and innovate into new products through GVCs and existing FTAs to ensure more export resilience. Commodity prices have increased sharply and may increase further in the short term. Keeping track of domestic price developments is therefore warranted. Nevertheless, reducing the environmental protection tax would not be the right policy to provide oil price relief.

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 (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), official market exchange rate (Vietcombank)

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