VIETNAM MACRO MONITORING

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WHAT'S NEWS?

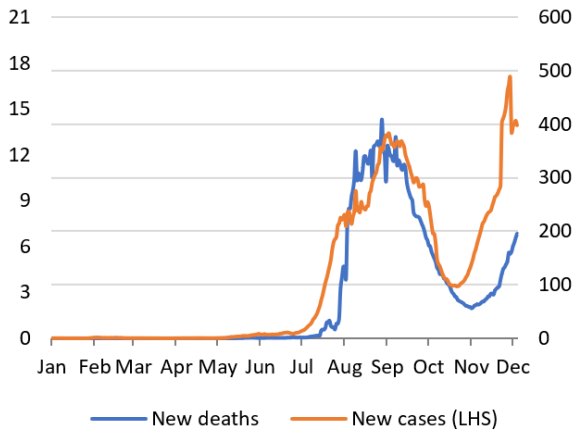
- The number of new COVID-19 infections and deaths rose rapidly in November but thanks to progress in vaccination campaign, the case fatality rate (CFR), which is the ratio between confirmed deaths and confirmed cases, has started to trend down.
- Economic conditions continued to improve. Both industrial production and retail sales registered a third month of growth.
- Merchandise exports hit a record high of US$31.9 billion, helping maintain a second consecutive month of trade surplus while FDI commitment recovered after a brief dip in October.
- Inflation ticked up due to fuel price hikes, recovering non-food domestic demand and rising logistic costs while credit growth remained stable, providing amble liquidity to support the economy recovery.
- The government continued its contractionary fiscal stance as the budget balance posted another month of surplus, driven by strong revenue collection.
- The policy of living with COVID will involve continued vigilance and fast action by the authorities, both in vaccination and in social distancing, testing, and quarantining. There is also clear need for fiscal policy support to boost private demand and help the domestic economy recover. Providing financial assistance to impacted workers and households would be an essential avenue to achieve this objective. Given the available fiscal space, and difficulties registered in implementing the budget in 2021, another policy option for consideration is a reduction in the value-added taxes for 2022 to support private consumption. Continued close monitoring of the financial sector is also warranted.

RECENT ECONOMIC DEVELOPMENTS

The number of new COVID-19 infections rose rapidly again in November

After the government lifted mobility restrictions, starting in early October, the numbers of new confirmed COVID-19 cases increased quickly, surpassing numbers observed in the third quarter (Figure 1). With rising new infections, the number of new deaths also picked up. However, the case fatality rate (CFR), which is the ratio between confirmed deaths and confirmed cases, fell from 2.5 percent in September to 2.0 percent in December. This fall is probably reflecting the effectiveness of the country's rapid vaccination. As of 8 December, all-time infection cases reached 1.3 million, the death toll reached 26,000. About 75 percent of population had received at least one dose of COVID-19 vaccines and 56 percent had been fully vaccinated.

Figure 1: COVID-19 New Cases and Deaths
(New cases in thousands, 7-day moving average)

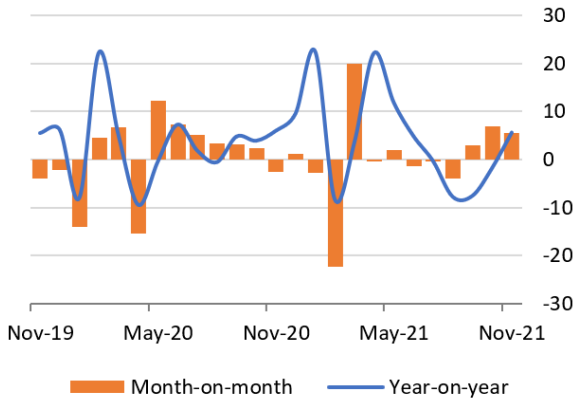


Industrial production index rebounded strongly, proving its resilience again

Industrial production index increased by 5.5 percent (m/m) in November (Figure 2). This solid recovery partly reflected the resumption of economic activities in the Southern provinces, including Ho Chi Minh City (up 13.3 percent (m/m)). With the ongoing recovery in November, the industrial production index exceeded the level observed a year ago. Food, tobacco, textiles and garment, rubber and plastic products, and metals were the most dynamic sub-sectors, posting double-digit year-on-year growth rates.

Production of electronic, computer and optical products also grew strongly by 8.5 percent (y/y). The manufacturing PMI stood at 52.2 in November, almost the same as in October and above the 50.0 neutral benchmark, indicating continued improvement in economic conditions.

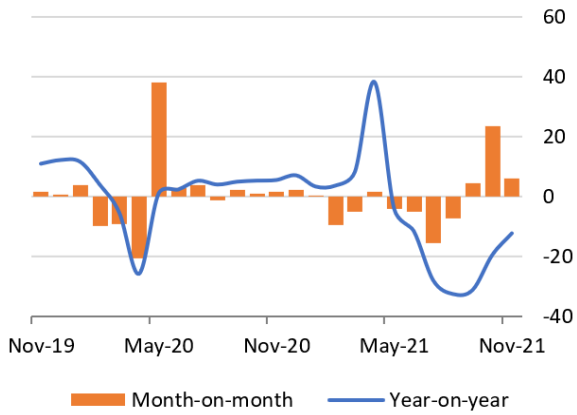
Figure 2: Industrial Production Index (Percent, NSA)



Retail sales continued to improve, but have yet to recover to November 2020 levels

Retail sales increased by 6.2 percent (m/m) in November driven by domestic demand's continued recovery (Figure 3). However, retail sales remained 12.2 percent lower than in November 2020. Sales of services, which were hit harder by social distancing measures than sales of goods during the third quarter lockdown, were recovering faster in the aftermath (12.5 percent (m/m) compared to 5.2 percent (m/m)). Nevertheless, both were below the levels reported a year ago.

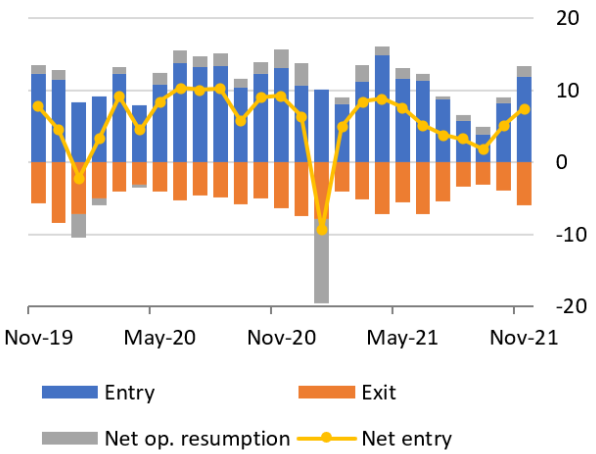
Figure 3: Retail Sales (Percent, NSA)



Net firm entry increased significantly as economic and administrative activities resumed after the lockdown

The number of newly established formal firms increased by 45 percent (m/m) in November, a second month of increase since May (Figure 4). Firm exit numbers also increased, but at a slower pace than firm entry. More businesses resumed than suspended operations. The overall improvements in formal firm dynamics could reflect the reduction of delays in official registration of new businesses and business closure caused by the lockdown. The higher net entry could be attributed to improved economic conditions.

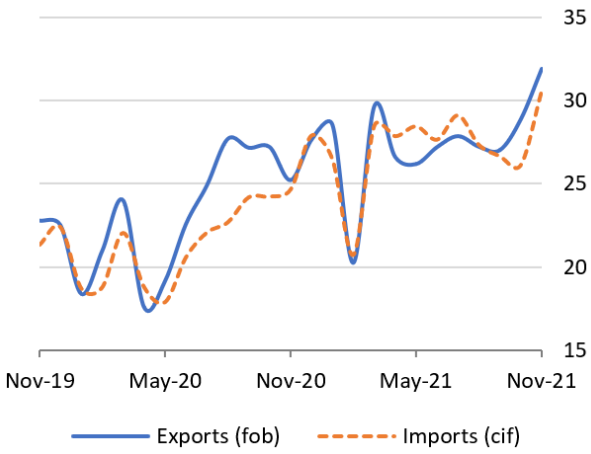
Figure 4: Firm Entry and Exit
(Thousands of firms, NSA)



Merchandise exports hit a record high of US$31.9 billion, improving the trade balance

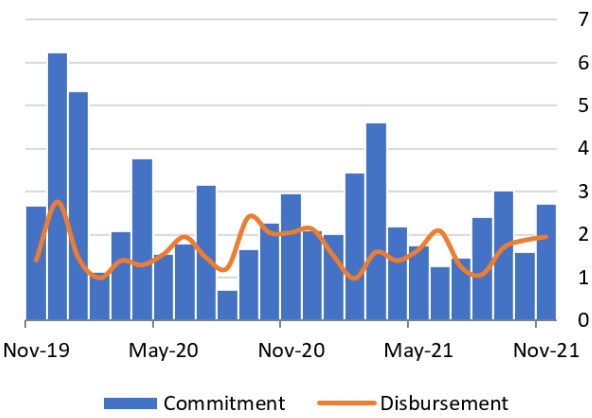
The trade surplus reached US$1.3 billion in November as merchandise export growth accelerated from 6.1 percent (y/y) in October to 26.5 percent (y/y) in November, exceeding import growth rate of 24.1 percent (y/y) (Figure 5). Year to date merchandise trade registered a surplus of US$1.46 billion. The strengthening export performance can be attributed to the resumption of manufacturing activities, particularly in high-tech product sectors. Exports of phones, computers and electronics, and machinery, which accounted for over 40 percent of total exports increased by 19.6 percent (y/y) in November (US$13.3 billion). Exports of textiles and garment also rebounded strongly (up 24.9 percent (y/y)) while exports of footwear and wooden products declined for a fourth month. By trading partners, after falling for two months, exports to U.S. recovered in October (up 3.1 percent (y/y/)) and is estimated to strengthen in November (up 13.8 percent (y/y)), amounting to US$8.0 billion. Exports to China also accelerated from 4.8 percent (y/y) in October to 11.7 percent (y/y) in November, reaching US$6.0 billion.

Figure 5: Merchandise Trade (US$ Billion, NSA)



FDI inflow remained resilient, particularly in manufacturing

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

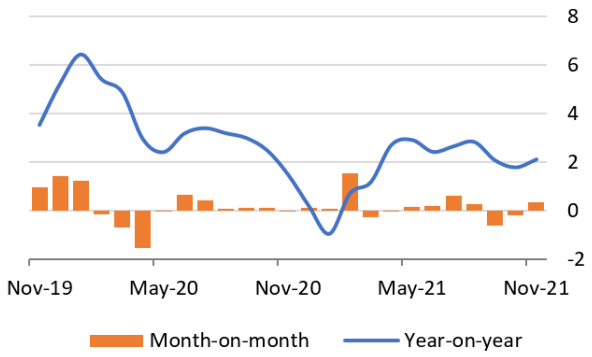


FDI commitment increased by 71.2 percent (m/m) in November after a dip in October (Figure 6). This was mainly driven by recovering investment in manufacturing (up 40.2 percent (m/m)). Over the first eleven months, the country attracted US$26.5 billion worth of FDI commitment, comparable to the amount committed in the same period of 2020. FDI disbursement continued to recover from the sharp decline in the third quarter (up 4.3 percent (m/m) in November) but has yet to reach the level observed a year ago. In the first eleven months of 2021, it was 4.2 percent lower than in the same period last year.

Inflation ticked up due to fuel price hikes and recovering non-food domestic demand

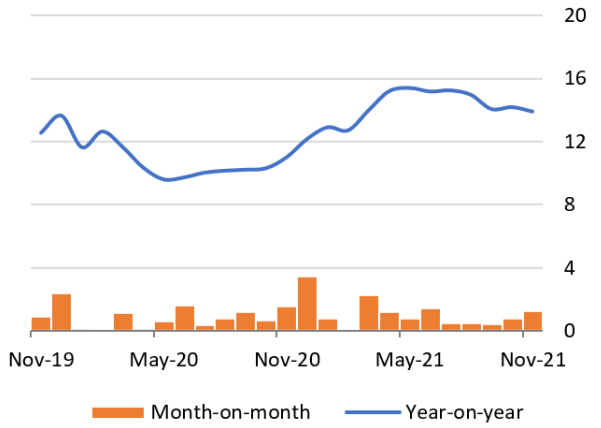
After two months of decrease, the Consumer Price Index (CPI) increased by 0.3 percent (m/m) in November (Figure 7). This partly reflected rising cost of transports (up 3.1 percent (m/m)) due to higher fuel prices, recovering domestic demand for non-food product as well as increasing logistics costs. Food prices continued to trend down, falling by 0.2 percent (m/m) thanks to well-maintained food supply chains. Compared to a year ago, CPI rose by 2.1 percent (y/y), slightly higher than in October, but well below the 4.0 percent target set by the State Bank of Vietnam.

Figure 7: Consumer Price Index (Percent, NSA)



Credit growth and overnight interest rate were stable

Figure 8: Credit Growth (Percent, NSA)



Credit to the economy was estimated to increase by 13.9 percent (y/y) in November, comparable to the increases in October and September (Figure 8). This rate was well above the nominal GDP growth rate, providing amble liquidity to support businesses through the crisis. With stable credit growth, overnight interbank interest rates stood at an average of 0.63 percent, similar to the rates in October and September.

The government continued its contractionary fiscal stance

In November, the budget surplus increased to VND 120.3 trillion (US$5.2 billion), thanks to an additional surplus of VND 45.4 trillion (US$2.0 billion). Total revenue was estimated to increase by 12.3 percent (m/m) and 33.4 percent (y/y) in November, partly reflecting the expiration of some business tax deferrals. Over the first eleven months, total collected revenue exceeded the annual plan for 2021 by 3.4 percent. Total expenditure increased by 9.4 percent (y/y) in November for the first time since April 2021 thanks to the acceleration of public investment disbursement (up over 150 percent (y/y)). However, over the first eleven months of the year, total expenditures contracted by 7.4 percent (y/y), reaching 75.2 percent of the annual target. This overall decline was associated with both less recurrent spending and lower capital expenditures (down 5.8 percent (y/y) and 12.3 percent (y/y), respectively).

The government borrowed VND 26.2 trillion (US$1.1 billion) in the domestic market in November, raising total borrowing to VND 290.6 trillion (US$12.5 billion) for the year, equivalent to 83.0 percent of annual plan. Ample liquidity continued to keep borrowing costs low, with the yield of 10-year State Treasury bonds in the primary market falling slightly to 2.07 percent at the end of November.

To watch:

The policy of living with COVID will involve continued vigilance and fast action by the authorities. Although the case fatality rate is trending down, the numbers of new cases are rising rapidly. Thus, in addition to continuing the accelerated vaccination program, vigilance in social distancing, testing, and quarantining is important to avoid a new wave of infections affecting lives and forcing new restrictive measures. On the fiscal front, going forward, there is clear need to support private demand to help the domestic economy recover and contribute to growth. Providing support to impacted workers and households would be an essential avenue to achieve this objective. Given the available fiscal space, and difficulties registered in implementing the budget in 2021, the government may also consider revenue measures to support domestic demand. This could include a reduction in the value-add taxes (VAT) for 2022 to

support private consumption. Continued close monitoring of the financial sector is warranted.

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 FiinResearch; credit and deposit growth in October and November 2021 (calculated by World Bank staff based on data from news); number of confirmed COVID-19 cases and COVID-19 doses administered, and Treasury Bonds (Vietnam Bond Market Association); real effective exchange rate (World Bank Global Economic Monitor Database), official market exchange rate (Vietcombank); Firm entry refers to new firms only; exit consists of firms waiting for dissolution and firms that completed the dissolution process, and exit has minus sign; net operation resumption is the number of existing firms resuming their operations minus the number of existing firms temporarily suspending their operations; net entry is the sum of the three.

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