VIETNAM MACRO MONITORING

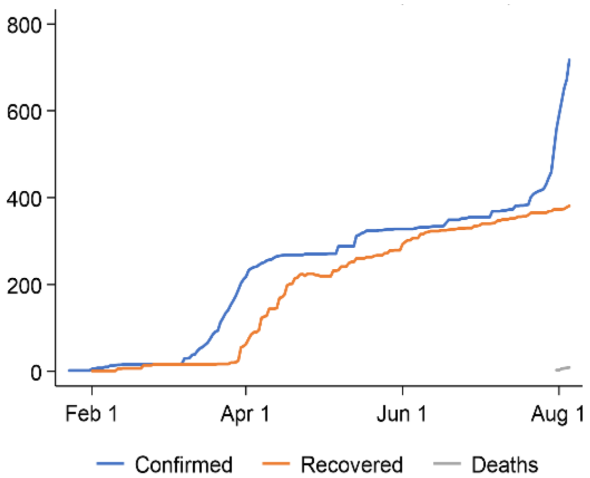
WHAT'S NEWS?

- In July, the economy continued its road to recovery with reported increases in domestic manufacturing and retail sales of 2.1% (y/y) and 4.6% (y/y), respectively, in line with the easing of social distancing and mobility restrictions, but still lower that the growth rates registered during the same period of 2019.
- Showing an unexpected degree of resilience in the depressed international context, Vietnam's export performance was robust (approximately at the same level than in July 2019) thanks to domestic rather foreign owned firms, while FDI inflows was down only by approximately 7 percent during the first seven months of the year.
- Inflation increased slightly to 3.4% (y/y) in July, mostly due to higher prices of food products while transport prices declined.
- The expansion of the credit to the economy has slowed substantially, below 10 % in recent months, reflecting the decline in economic activity despite State Bank of Vietnam (SBV) policy to reduce interest rates and to encourage commercial credit.
- Widening of the fiscal deficit is expected as, during the first half of the year, only 76% of the revenue reported for the same period in 2019 was collected by the Government. Concurrently, expenditures increased due to the social measures implemented to alleviate the effects of the crisis and efforts to accelerate the execution of the investment program to stimulate the recovery.
- Looking ahead, the resurgence of community driven COVID-19 infections and new stringency measures, especially in Danang, will certainly impact the pace of recovery of the economy. Such negative impact might be partially compensated by the Government's effort to accelerate the execution of its investment program, notably in provinces.

RECENT ECONOMIC DEVELOPMENTS

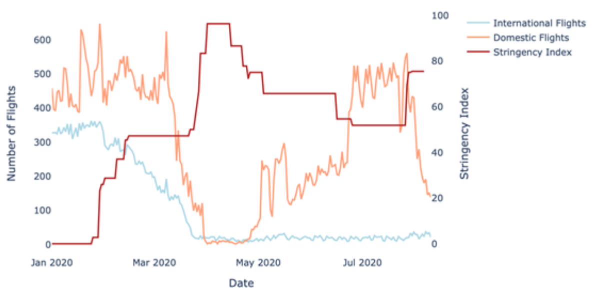
As of August 11, the country registered 847 infections and 15 deaths mostly as the result of the new wave of community driven infections in the Danang region. After almost 100 days of zero community driven infections, Vietnam declared its first new community case on July 25. Since then, 389 new cases have been reported, mainly in the Da Nang City (271), Quang Nam province (74) and neighboring provinces but also in HCMC and Hanoi. Testing and tracing have intensified, with 182,267 people being medically monitored and quarantined, including 5,139 at hospitals, 28,408 at centralized quarantine camps, and 148,720 at their places of residence.

Covid-19 - Cases in Vietnam (cummulative)



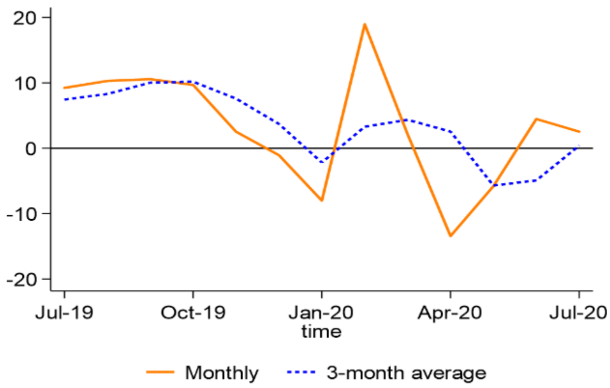
Vietnam domestic economic rebound continued, albeit not yet at the pace of the pre-crisis level.

Stringency index and flight tracking



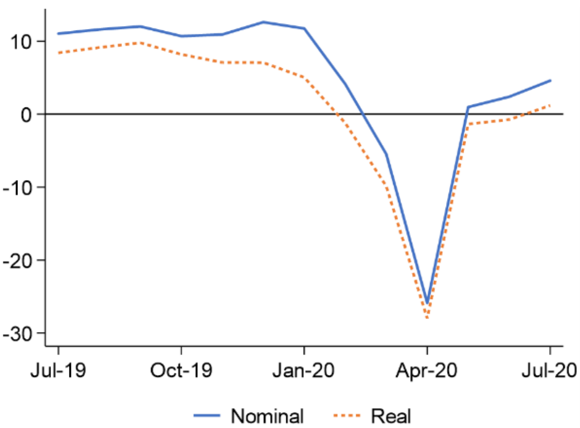
After three weeks of intensive lockdown in April, the Government gradually eased social distancing and mobility restrictions, up to the recent COVID-19 outbreak in Danang at the end of July. Over the past few days, the Government has reintroduced stringent mobility restriction measures in Danang while increasing social distancing in other cities. The recent increase in the national stringency index and the sharp decline in the number of domestic flights since early August are reflected in the related graph.

Industrial Production Index (% change, y/y)



Prior to the recent outbreak, the domestic economy continued its rebound with the industrial production index (IPI) up 2.5% (y/y) in July. The rate of expansion was nonetheless slightly lower than the reported in May and June. Similarly, retail sales of goods and services continued to recover, growing by 4.6% (y/y). Both manufacturing and retail sales reported year-on-year growth rates lower than their respective growth rates in June 2019, indicating that the economy had not yet fully bounced back to its pre-crisis activity levels.

Retail sales (% change, y/y)



Overall merchandise trade continued to recover, driven by domestic rather than foreign exporting firms

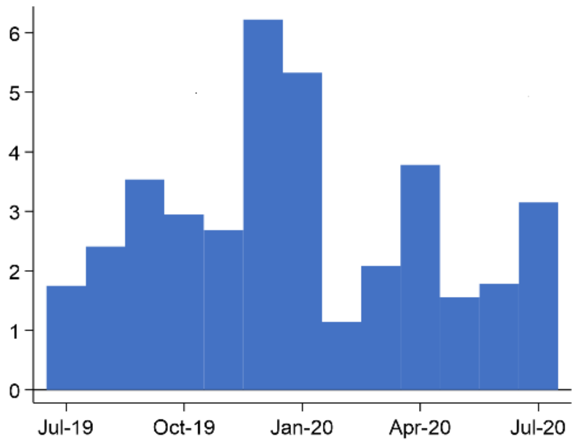
In July, Vietnam's was able to maintain its merchandise trade surplus with a monthly surplus of $1.6 billion, yielding a surplus of $9.4 billion for first seven months of 2020, up from $3.3 billion over the same period in 2019. The value of total exports slipped 1.4% compared to June 2020 but is comparable to July 2019. Exports performance of the domestic economic sector shows stronger signs of recovery (up by 10.6%) while foreign owned exporters suffered a decline in the sales of approximately 5% compared to one year ago. While most destination markets declined, increases were reported for the US, EU and Japan in July. Overall import values increased 2.0% compared to June 2019 but are still about 3.6% lower than in July 2019.

International trade (USD billions)

International tourist arrivals to Vietnam in the first seven months of 2020 is estimated at 3.76 million, down 62% (y/y).

FDI shows resilience too...

Foreign Direct Investment (USD billions)

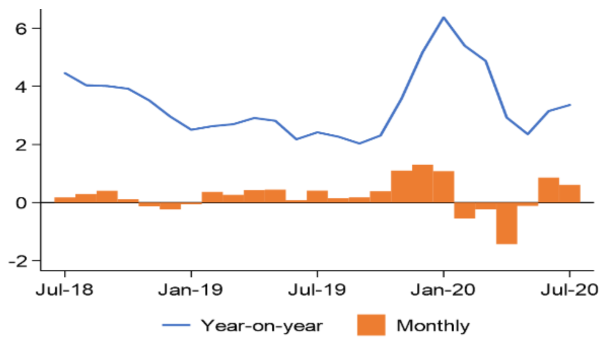


Foreign Direct Investment (FDI) flows into Vietnam strengthened in July compared to May and June. However, overall FDI commitments declined by 7% (y/y) during the first 7 months of 2020 compared to the same period of 2019. The surge observed since end April capture the stronger interest of foreign investors in Vietnam, which, by being ahead of the COVID-19 curve and being located next to China, may take advantage of the revamping of global value chains and the ongoing effort by multinational to diversity their risks.

While CPI remains subdued

The July CPI remained flat compared to June (100.4) and core inflation registered minimal increase. The flat monthly CPI is associated with lower food prices compared to June, while transport costs rose. The CPI was up 3.4% (y/y).

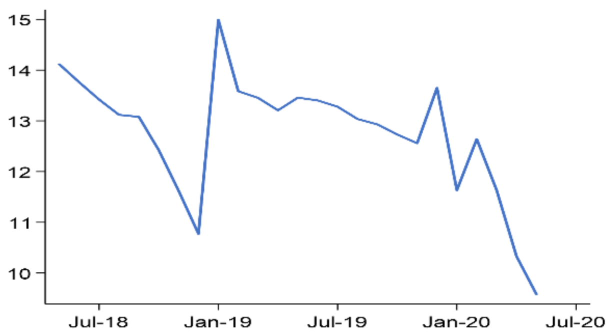
Consumer price index (% change)



And the credit expansion is unwound

The year on year rate of change of credit to the economy fell steadily since February, dropping to 9.3 % y/y in June. This rate, though historically low, is still several times higher than the GDP growth rate. It reflects the easing of monetary and credit conditions by SBV to support vulnerable firms. While justified, such policy should be carefully watched at it has reduced bank's margins in an environment where the rate of delinquent loans has already increased rapidly.

Credit (% change, y/y)

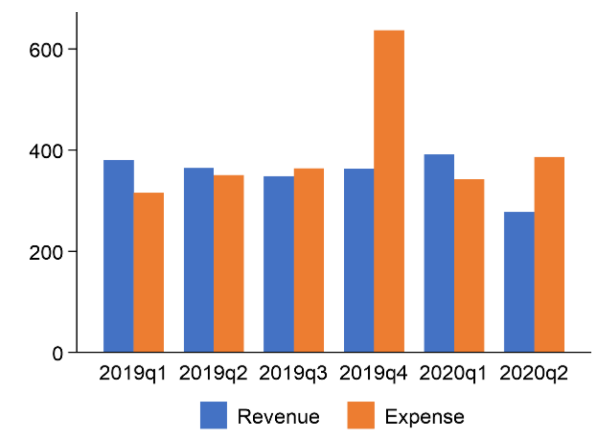


However, government balances should be watched carefully

Since April, government revenues have fallen substantially, while expenditures increased in response to the crisis. In the first half of the year, the government collected only 76 % of the revenue reported for the same period in 2019 as the result of slower economic growth and deferred tax payments for businesses and individuals in response to the crisis. In line with its objective to raise public investment as a stimulus to economic recovery, disbursement was estimated at total VND45.7 trillion (US$1.97 billion) in July, representing a rise of 51.8 % against the same period last year. Over the first seven months of the year, total disbursement of public investment reached VND203 trillion, equivalent to 42.7 % of the plan for the full year and up by 27.2 % over the same period in 2019.

After several months of slow activity on the domestic capital market, the State Treasury raised more than 58.67 trillion VND (over 2.5 billion USD) in July, up by 80 percent against June.

Government Revenue and Expense (VND quadrillion)



To watch: Vietnam economy rebounded quickly after the removal of domestic restrictions associated with Covid-19 lockdown, and the relatively good performance of the export sector. The late July 2020 outbreak in Danang and the response of the authorities to control it may affect the pace of economic recovery going forward. Greater attention will need to be paid to the growth and fiscal impacts of the crisis and policies to redress them in the medium to long term.

Sources: *All data are from the Government Statistics Office of Vietnam and hosted by Haver Analytics, except: COVID-19 cases (which is from the Johns Hopkins University Coronavirus Resource Center); and the June 2020 value for FDI (Ministry of Investment and Planning); the June value for credit growth (WBG Vietnam team); the stringency index and flight tracking (WBG Vietnam team, various sources, https://blogs.worldbank.org/eastasiapacific/reopening-international-flights-during-covid-19-new-real-time-big-data-dashboard). Retail sales, international trade, and consumer price index are seasonally adjusted; international trade is also adjusted for the Lunar New Year.*