

VIETNAM MACRO MONITORING



WHAT'S NEWS?

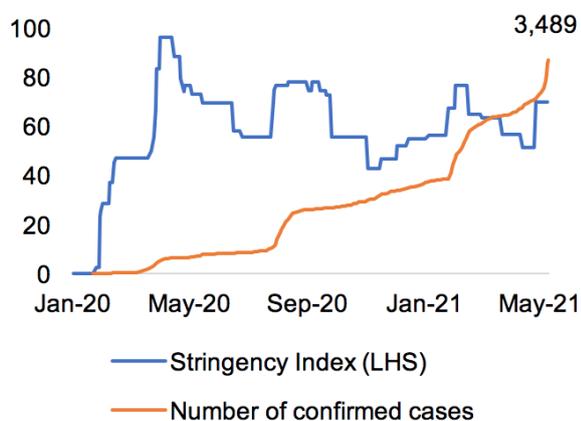
- Vietnam is experiencing the fourth outbreak of locally transmitted COVID-19 infections that started in late April 2021, triggering swift responses from the government that closed schools and imposed new mobility restriction measures.
- In April 2021, industrial production continued its solid expansion while retail sales rebounded after two consecutive months of decline.
- Merchandise exports fell slightly but remained exceptional thanks to on-going recovery in U.S. and China, while foreign direct investment inflows slowed down after two months of increase.
- Prices rose by 0.5 percent (m/m) in April 2021 as the result of the rebound in private consumption after the end of the third COVID-19 outbreak.
- The budget registered a surplus in the first four months of 2021 as revenue collection rose by 7.3 percent (y/y) while slower public investment disbursement contributed to a decline in total expenditure.
- Looking ahead the ongoing economic recovery can be negatively affected by the fourth COVID-19 outbreak. If the new restrictive health and mobility measures need to be maintained or increased, the government may want to consider a new fiscal stimulus that would include a more generous assistance package for COVID-19 affected people and businesses.

RECENT ECONOMIC DEVELOPMENTS

Vietnam is experiencing the fourth outbreak of locally transmitted COVID-19 infections that started in late April 2021. This outbreak is affecting multiple regions and the three main cities of Hanoi, Ho Chi Minh City and Da Nang. The authorities have immediately increased mobility restrictions and precautionary public health measures such as school closures. They have continued with tracing, testing and quarantining practices. As of May 10, all time total infections stood at 3,489 with only 35 deaths (Figure 1).

COVID-19 vaccinations accelerated in April, with 506,000 doses administered, compared to about 50,000 at the end of March. The government has announced that it will allocate 12.1 trillion VND (over US\$520 million) to procure more COVID-19 vaccines.

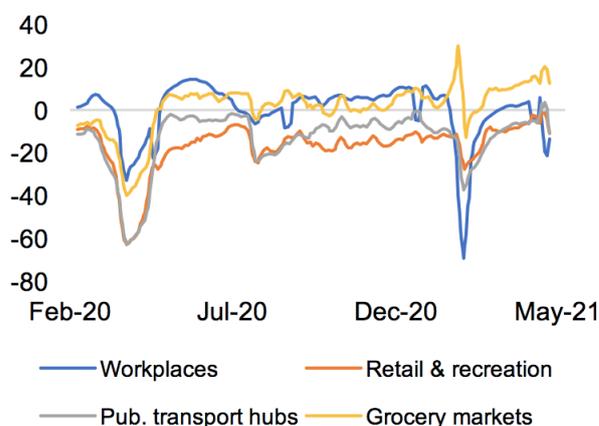
Figure 1: COVID-19 cases and stringency



Prior to the fourth wave, mobility was improving fast, but it is deteriorating again with new restrictions

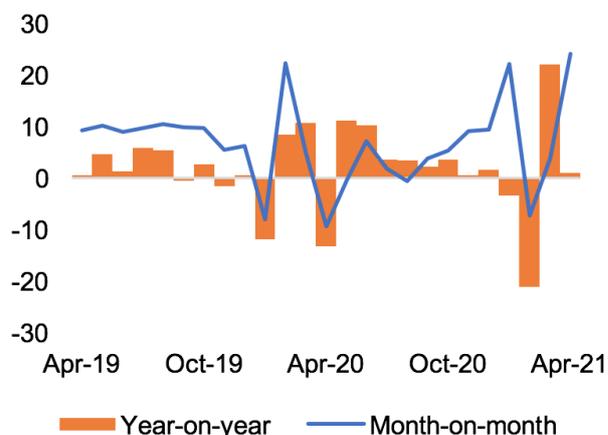
During most of April, most mobility indicators improved significantly as the third COVID-19 outbreak was brought under control. They also spiked up at the end of the month as Vietnamese celebrated the second-longest national holidays in observance of National Reunification Day and International Labor Day. Yet, such indicators are deteriorating in May as the result of stronger mobility restrictions (Figure 2).

Figure 2: Mobility trends - 7 days moving average
(% change compared to baseline in the period Jan 3–Feb 6, 2020)



Industrial production continued to expand thanks to robust external and recovering domestic demand

Figure 3: Industrial Production Index (% change, NSA)



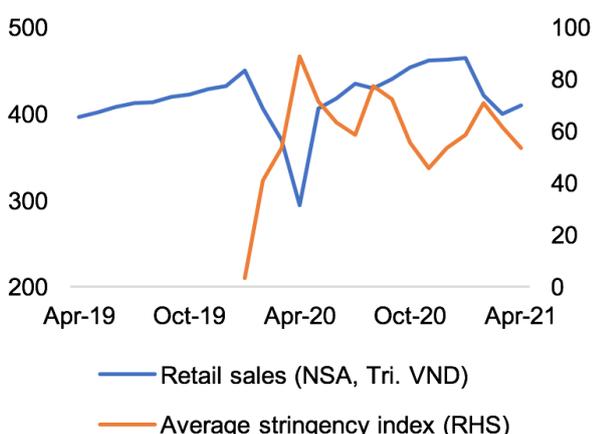
Industrial production index increased by 1.1 percent (m/m) and 24.1 percent (y/y) in April 2021 (Figure 3). The high y/y growth rate is to a large extent due to the low base effect as production was hit hard by the pandemic related lockdown in April 2020. The continued expansion also reflects recovering domestic consumption in addition to solid external demand for high-tech manufacturing products. The most dynamic sub-sectors include beverage, clothing, and home appliances, basic metals, electronics, computers and optical products, and machinery. The PMI index rose from 53.6 in

March to 54.7 in April, marking it the sixth consecutive month of continuous expansion of manufacturing.

Retail sales rebounded in April

Retail sales grew by 2.3 percent (m/m) in April 2021, reflecting the partial recovery of consumer demand from the third outbreak of coronavirus in late January 2021. This rebound was driven by 1.9 percent (m/m) increase in sales of goods while services grew by 3.8 percent (m/m). However, the overall level of sales was still lower than in January 2021 (Figure 4).

Figure 4: Retail sales and government stringency index



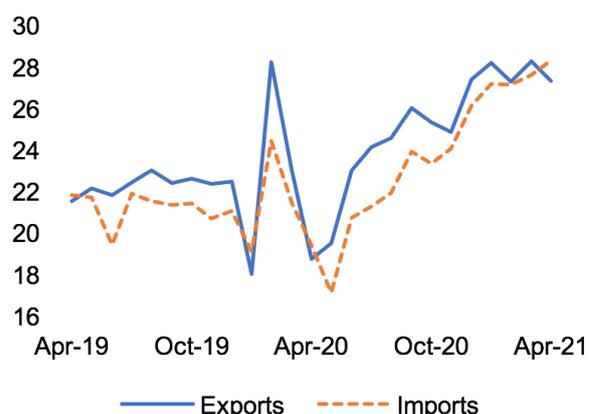
Merchandise trade continued to perform exceptionally well, driven by robust demand from U.S. and other major trading partners

Expansion of goods exports eased slightly by 3.4 percent (m/m) while imports continued to grow by 2.6 percent in April 2020 (Figure 5). Over the first four months of 2020, exports and imports grew by 26 percent and 31 percent (y/y), respectively. Trade expansion was fueled by the recovery in the U.S. and China and to a lesser extent by the EU, ASEAN, and Korea.

Double-digit (y/y) growth rates were recorded across all major export categories in the first four months of 2021. The fastest expansion was in machinery, followed by computers and electronics, and phones. Footwear, and textiles and garments also recovered strongly (up by 19 percent and 10 percent (y/y), respectively).

Foreign-owned exporters continued to prove more dynamic and resilient than local exporting firms. High import growth was mainly attributed to booming imports from China, Korea, and ASEAN, reflecting heavy reliance of Vietnam’s exports on foreign materials and intermediate goods.

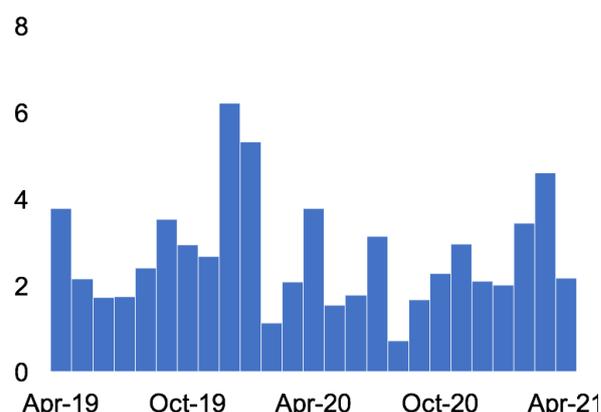
Figure 5: International Trade (USD billion, SA)



Foreign direct investment (FDI) inflows declined in April, but the overall level has been almost stable during the first four months of the year

Vietnam attracted \$US 2.2 billion of FDI in April 2021, which was 53 percent lower than in the previous month, and 42 percent lower than a year ago (Figure 6). This decline partly reflects month-per-month variations in the value of commitments by individual investors. Over the first four months of the year, the level of FDI was almost the same as during the corresponding period in 2020.

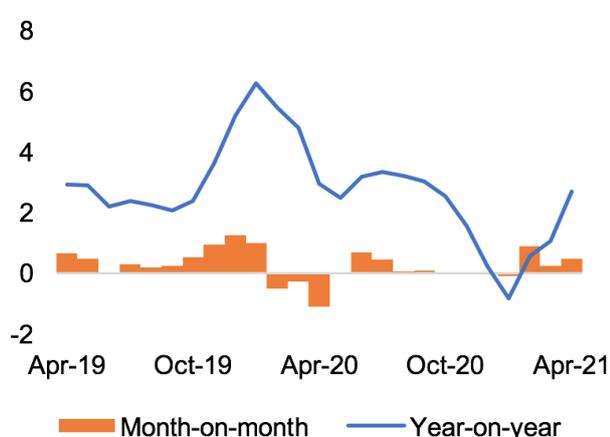
Figure 6: Foreign Direct Investment (USD billion, NSA)



Inflation accelerated in April 2021 as consumer demand rebounded after the third wave of COVID-19 was contained

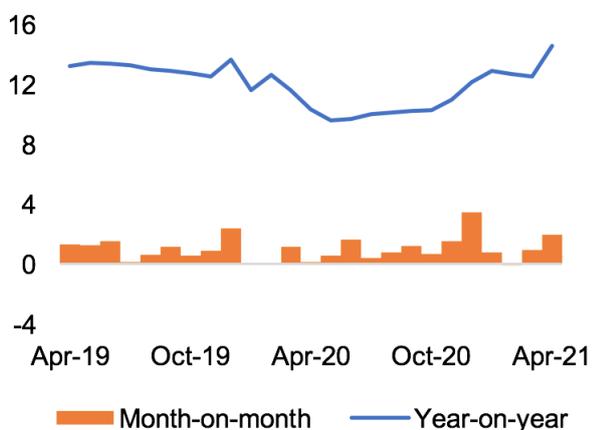
The Consumer Price Index (CPI) increased by 0.5 percent (m/m), mainly driven by higher prices of consumer goods, including food, beverage and cigarettes, clothing, and household supplies and appliances (Figure 7). This reflects the recovery of household consumption from the third local outbreak of coronavirus.

Figure 7: Consumer Price Index (% change, SA)



Credit growth accelerated as businesses ramped up production to meet higher demand during the national holidays

Figure 8: Credit Growth (Percent, y/y)



Credit to the economy grew by 2 percent (m/m), reflecting increased demand for credit as businesses responded to the stronger consumer demand during the national holidays in late April and early May (Figure 8). Average overnight

interbank interest rate also increased from 0.29 percent in March to 0.48 percent in April.

The budget registered a surplus in the first four months of 2021

The fiscal situation has improved as the government budget registered a surplus of approximately 80 trillion VDN during the four first months of the year. Revenues reached 543.4 trillion VND, about 40.5 percent of the annual target, and 7.3 percent higher than the same period last year. Between January and April 2021, the government spent 463.7 trillion VND, which is two percent lower than a year ago. The main source of decline was the slower disbursement of public investment projects, down by 3.7 percent compared to the same period last year. ODA-financed projects only disbursed one-third of the value that was recorded during the same period of 2020.

In April, the State Treasury borrowed 26.3 trillion VND from domestic market, double the amount observed in March. Over the first four months, a total of 65.5 trillion VND was raised, equivalent to only 17.8 percent of the annual target for 2021. All bonds were issued with maturities of five years or longer and the average yield for 10-year maturity bonds was 2.36 percent, or approximately nine basis points higher than in March. This confirms the rising trends in borrowing cost observed since January 2021.

To watch:

The fourth COVID-19 outbreak has led to a sharp increase in community transmitted infections, forcing the government to close schools in many provinces and to reinstitute precautionary health and mobility restrictions measures. Depending on the magnitude of the outbreak and how quickly the government will be able to bring it under control, domestic economic activities will be affected, especially those in sectors such as tourism, transports, and retail. If this happens, the government may wish to consider boosting domestic demand by adopting a more accommodative fiscal policy, including increasing its support to affected businesses and people.

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 and Ministry of Planning and Investment (MPI)), 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 growth in March and April 2021 (calculated by World Bank staff based on data from MPI); number of confirmed COVID-19 cases and COVID-19 doses administered, and Google 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) (World Bank High Frequency & COVID data dashboard); Treasury Bonds (Hanoi Stock Exchange).

SA=Seasonally Adjusted;
NSA=Not Seasonally Adjusted.