Vietnam at a glance

A strong bounce

Free to View
Economics - Vietnam

- Vietnam saw an 11-year-high growth rate of 7.7% y-o-y in 2Q22, largely reaping the benefits of re-opening tailwinds
- However, surging global commodity prices are starting to squeeze its terms of trade and push up inflation
- We raise our 2022 growth forecast to 6.9% (prev: 6.6%), but lower our 2023 growth forecast to 6.3% (prev: 6.7%)

Yun Liu
Economist
The Hongkong and Shanghai Banking Corporation Limited

Jun Takazawa
Associate
The Hongkong and Shanghai Banking Corporation Limited

Impressive pace

Similar to many countries, fading Omicron risks and easing restrictions have set the basis for Vietnam's return to normalcy. Its 2Q22 GDP expanded firmly by 7.7% y-o-y, thanks to broad-based recovery. Services, which once bore the brunt of an economic hit, have seen a meaningful recovery. In particular, tourism-related and consumer-facing services have largely benefitted from sustained re-openings. Meanwhile, manufacturing continues to roar, taking exports to historical highs.

Not to forget growth risks

However, the impact of high energy prices is becoming increasingly clear. For one, elevated commodity prices have turned the trade balance into *deficit* in 2Q22, likely exacerbating the deteriorating current account. Also, despite a firm rebound in household consumption, high oil prices will likely take a bite out of residents' wallets, dampening the pace of its continued recovery. Indeed, price pressures have started to kick in, albeit at a still manageable pace compared with regional peers.

Updates to our forecasts

Thus, we now expect Vietnam's economy to grow 6.9% in 2022, likely topping the region. That said, we trim our 2023 growth forecast to 6.3%, taking account of mounting downside risks, particularly from the energy side. On prices, we expect inflation to average 3.5% in 2022, but inflation momentum is likely to exceed the 4% ceiling temporarily for some time, increasingly calling for monetary normalisation.

Table 1. Summary of key recent economic indicators

	Apr 22	May 22	Jun 22
PMI	51.7	54.7	54.0
Exports (% y-o-y)	25.2	18.1	20.0
Imports (% y-o-y)	16.1	14.3	16.3
CPI (% y-o-y)	2.6	2.9	3.4
Manufacturing IP (% y-o-y)	23.7	25.7	28.7

Source: CEIC, S&P Global, HSBC

Table 2. Vietnam's GDP profile

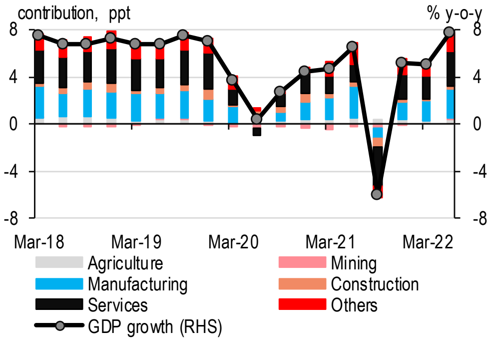
	% y-o-y				Contribution to GDP, ppt			
	3Q21	4Q21	1Q22	2Q22	3Q21	3Q21	1Q22	2Q22
GDP	**-6.0**	**5.2**	**5.1**	**7.7**	**-6.0**	**5.2**	**5.1**	**7.7**
Agriculture, Forestry and Fishery	**1.2**	**3.2**	**2.5**	**3.0**	**0.2**	**0.4**	**0.3**	**0.5**
Agriculture	2.7	2.9	2.4	2.2	0.2	0.3	0.2	0.3
Forestry	2.6	5.1	4.5	5.4	0.0	0.0	0.0	0.0
Fishery	-3.9	3.5	2.6	4.9	-0.1	0.1	0.1	0.2
Industry & Construction	**-5.5**	**5.6**	**6.4**	**8.9**	**-2.0**	**2.1**	**2.4**	**3.3**
Industry	-4.4	6.5	7.0	9.9	-1.3	1.9	2.2	3.0
Industry: Mining and Quarrying	-9.1	-2.7	1.1	3.4	-0.4	-0.2	0.1	0.2
Industry: Manufacturing	-4.1	8.0	7.7	11.5	-0.8	1.5	1.7	2.4
Industry: Electricity and Gas	-2.6	5.5	7.1	5.2	-0.1	0.2	0.4	0.2
Industry: Water Supply, Waste Management	-0.2	3.6	6.5	6.6	0.0	0.0	0.0	0.0
Construction	-10.1	2.1	3.3	4.0	-0.7	0.2	0.2	0.2
Services	**-8.6**	**5.4**	**4.6**	**8.6**	**-3.4**	**2.1**	**1.9**	**2.9**
Wholesale, Retail Sales & Motor Vehicles	-17.1	4.9	3.4	8.3	-1.7	0.5	0.4	0.7
Transportation & Storage	-19.6	0.9	7.0	9.4	-0.6	0.0	0.2	0.2
Accommodation & Food Service Activities	-54.1	-15.3	-1.2	25.9	-1.8	-0.5	0.0	0.6
Information & Communication	5.1	8.1	5.9	6.3	0.1	0.1	0.1	0.1
Financial, Banking & Insurance Activities	7.9	11.2	9.8	9.2	0.6	0.8	0.4	0.4
Real Estate Activities	-9.7	0.7	1.9	6.1	-0.5	0.0	0.1	0.3
Professional, Scientific & Tech Activities	3.5	4.7	6.3	6.5	0.1	0.1	0.1	0.1
Administrative & Support Service	-33.8	-15.0	-3.7	16.7	-0.1	0.0	0.0	0.0
Party, Public Administration, Organization	1.5	2.3	2.9	2.6	0.0	0.1	0.1	0.1
Education & Training	1.9	2.7	5.2	5.3	0.0	0.1	0.2	0.1
Human Health & Social Work Activities	38.5	92.7	10.3	6.3	0.5	1.1	0.1	0.1
Arts, Entertainment & Recreation	-7.9	-3.7	2.5	14.0	-0.1	0.0	0.0	0.1
Other Service Activities	-32.0	-10.0	-4.0	16.6	-0.5	-0.1	-0.1	0.2
Households Activities	0.3	1.0	2.7	3.6	0.0	0.0	0.0	0.0
Product Tax Excluding Product Subsidy / Implied errors & omission	**-6.2**	**5.2**	**4.6**	**4.9**	**-0.8**	**0.6**	**0.6**	**1.0**

Source: CEIC, HSBC

Regional outperformer

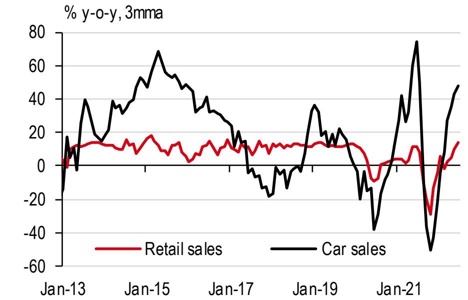
After two quarters of sustainable re-openings, Vietnam's recovery continues to be a regional outperformer. Its 2Q22 GDP growth hit 7.7% y-o-y, easily beating market expectations (HSBC: 5.8%; Bbg: 5.9%). This represents the highest growth Vietnam has seen in a quarterly GDP print since 2011, thanks to strong broad-based recovery across sectors (Chart 1). That said, when dissecting the breakdown closely, another hidden message is also surfacing. Despite rosy headline growth, the energy crunch has started to take a toll on Vietnam's growth.

Chart 1. Vietnam's 2Q22 GDP grew at an 11-year-high pace



Source: CEIC, HSBC

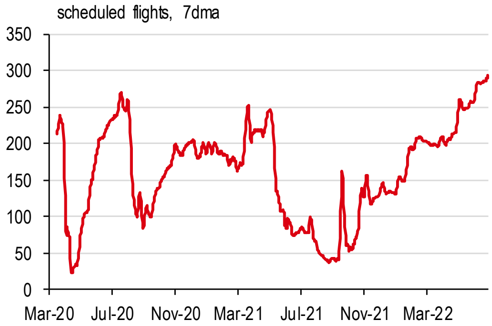
Chart 2. Retail sales saw a meaningful improvement in 2Q22



Source: CEIC, HSBC

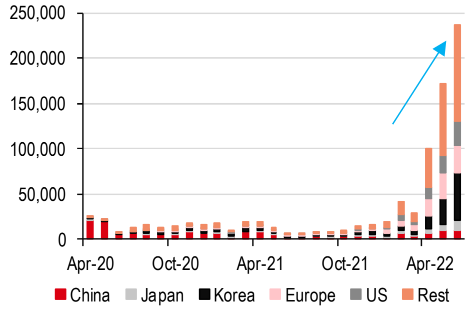
At first glance, it is encouraging to see a significant improvement in services. Thanks to removals of major local curbs and border restrictions in mid-March, travel-related sectors, particularly transportation and accommodation, have started to see meaningful revivals (Table 2). Meanwhile, retail sales overshot 17% y-o-y in 2Q22, signalling a return of rebounding household consumption (Chart 2). Indeed, part of the success was attributed to a gradual recovery in its labour market. The unemployment rate dropped to 2.3% in 2Q22, while employment continued to expand close to its pre-pandemic levels.

Chart 3. Hanoi's scheduled flights have doubled since the start of 2022



Source: Flight Tracker, HSBC

Chart 4. Tourist arrivals have seen a notable jump since re-opening in March



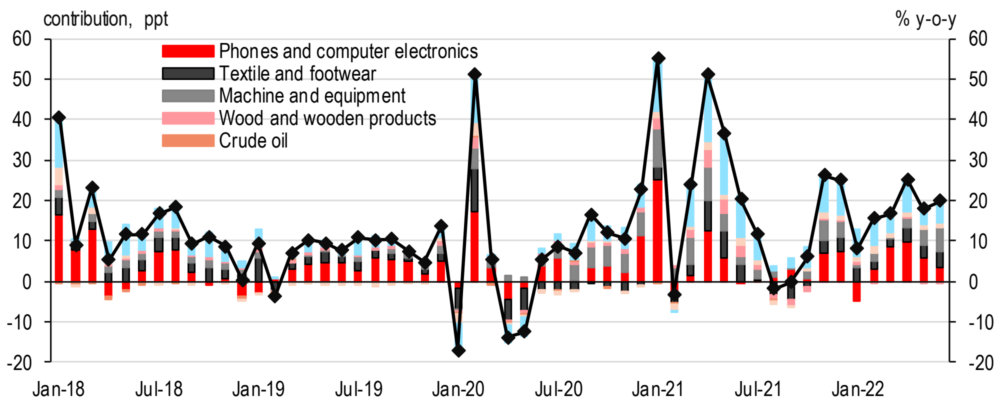
Source: CEIC, HSBC

Tourism is also making headway as the summer season approaches. Take Hanoi's Noi Bai airport as an example: parking lots are reportedly at full capacity, prompting airport authorities to respond with measures, such as opening all exit lanes to ticket control, to reduce traffic congestion (*SGGP*, 28 June). Scheduled flights in the Noi Bai airport have doubled since the start of 2022, exceeding those at the outset of the pandemic (Chart 3). This translated to daily passenger traffic of over 100k, a 40% increase from the same period in 2019, also exceeding the designed capacity of 100k at its T1 terminal (*VNExpress*, 29 June).

Indeed, following the border re-opening on 15 March, Vietnam has seen a substantial pick-up in tourist arrivals. In 2Q22, Vietnam welcomed 0.5m visitors, almost five times more than those in 1Q22, taking total tourists to 0.6m in 1H22 (Chart 4). Prior to the pandemic, 80% of tourists came from Asia, topped by those from mainland China (32%) and Korea (24%). Now, only 65% of tourists are from the region: European (16%) and US (11%) tourists have accounted for a large chunk of tourists post-pandemic, right after Korea (18%). The Vietnam National Administration of Tourism (VNAT) set an ambitious target of 5m foreign tourists in 2022, a little shy of 30% of 2019's level. However, the recovery in tourism is likely to be gradual, particularly given the lack of Chinese tourists.

That said, Vietnam has exceeded the VNAT's annual target of receiving 60m domestic tourists. To put this into context, take the resort island of Phu Quoc as an example: roughly 1.4m visitors visited the island in 1H22, of which over 95% were local tourists (*VNA*, 29 June). However, despite high number of domestic tourists, tourism receipts were worth USD11bn, only hitting 66% of the year's target (*VNExpress*, 30 June).

Chart 5. Export growth in 2Q22 remained exceptionally strong

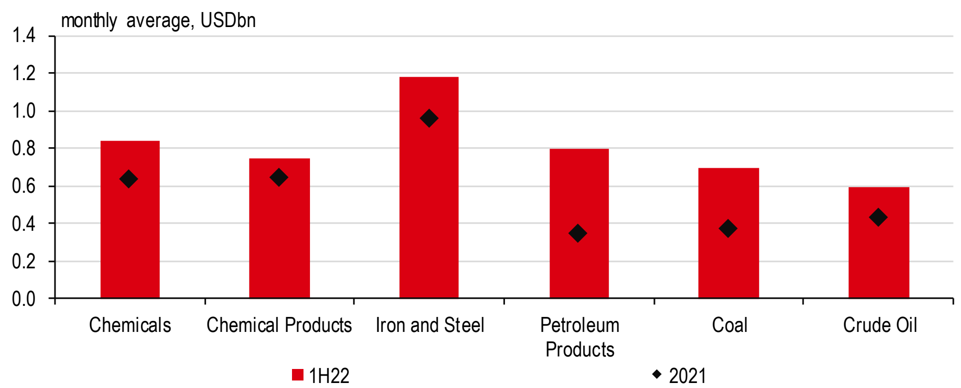


Source: CEIC, HSBC

Aside from recovering domestic demand, Vietnam's manufacturing has proved to be in a league of its own. All signs are pointing to the same direction of firm manufacturing growth. Albeit partly due to favourable base effects, industrial production (IP) growth accelerated to over 25% y-o-y in 2Q22. Undoubtedly, a large part of the success was attributed to firm electronics shipments, evidently shown in trade numbers. Export growth hit an impressive pace of over 20% y-o-y in 2Q22, a third of which came from firm computer and smartphone shipments (Chart 5). However, it is more than that: textiles and footwear, as well as machinery, all registered decent growth, indicating that Vietnam's external engine is roaring again.

However, import growth has been strong too, hitting over 15% y-o-y in 2Q22. Granted, part of it was due to the import-intensive nature of Vietnam's manufacturing base. For example, electronics materials accounted for almost 40% of imports in 2Q22. That said, as a net energy importer, it is increasingly clear that soaring energy prices have raised Vietnam's energy bills. Chart 6 presents the impact clearly: commodity imports have seen a notable jump this year.

Chart 6. But imports are strong too, partly driven by soaring energy prices

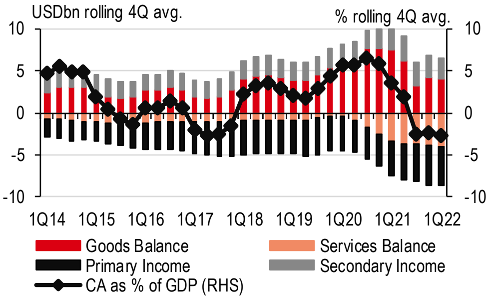


Source: CEIC, HSBC

Therefore, on a net basis, Vietnam saw a trade deficit of USD0.6bn in 2Q22, from a surplus of USD1.5bn in 1Q22, likely dragging its current account into a larger deficit. Indeed, Vietnam's current account advantage has been eroding since 2H21, as smaller trade surpluses were unable to offset deficits in services and primary income (Chart 7). After seeing a current *deficit* of 1% of GDP in 2021, we expect Vietnam to run another *deficit* for the second consecutive year, though the magnitude should be smaller than that of 2021, likely hitting 0.3% of GDP. This will likely put more downward pressure on VND.

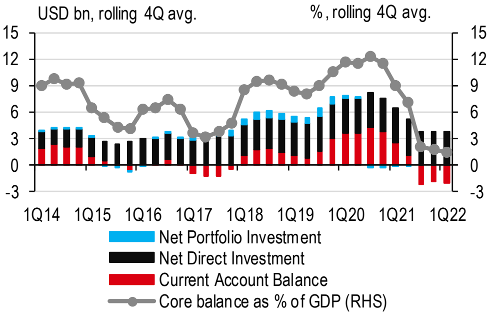
That said, one bright spot in Vietnam's capability to guard against external risks lies in its consistent FDI inflows, providing an anchor to its core balance. On a rolling basis, strong FDI inflows were able to offset current account deficits in the past quarters (Chart 8). In particular, FDI inflows to its manufacturing sector continued to rise, reflecting investors' unwavering interests and confidence in Vietnam's sound fundamentals.

Chart 7. Current account was in deficit for a few quarters…



Source: CEIC, HSBC

Chart 8. …but core balance remains positive, thanks to sustained FDI inflows

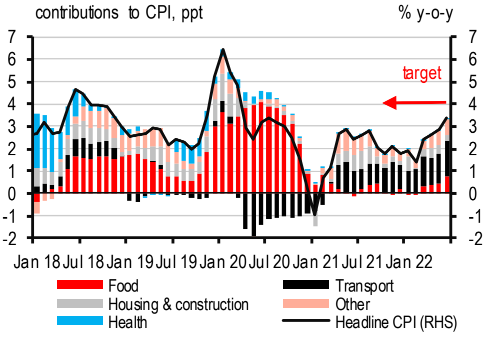


Source: CEIC, HSBC

What about inflation? Even though price pressures are not as acute as in regional peers for now, inflation momentum is rising rapidly (Chart 9). Headline inflation rose 0.7% m-o-m, translating into 3.4% y-o-y, exceeding HSBC and market expectations (HSBC: 3.2%; Bbg: 3.2%; Prior: 2.9%). Similar to previous months, high transport inflation remains the primary driver, rising 3.6% m-o-m. Indeed, domestic petrol prices continue to be adjusted upwards, jumping to record high levels (Chart 10).

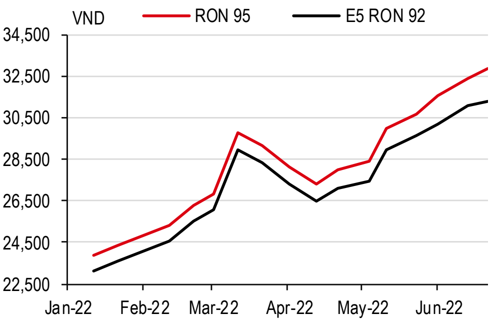
In response, the government sought to cut taxes on petrol to alleviate some of the pressure, as taxes and fees account for around 35% of gasoline prices. Since 1 April, the environment tax was cut to VND2,000 for gasoline and VND700-1,000 for other fuels, which is expected to run through 2022. In early June, the Ministry of Finance (MoF) proposed to further cut it to VND500-1,000, which is expected to take effect in early August. But this may not be the end. The MoF also signalled that it is considering to reduce special consumption tax (8-10%), and VAT (10%), but this requires approval from the National Assembly, whose upcoming session is scheduled for October (*VNExpress*, 30 June).

Chart 9. Inflation continues to rise, likely breaching the SBV's 4% ceiling in 2H22



Source: CEIC, HSBC forecasts

Chart 10. Local petrol prices reached record highs in June



Source: PVOIL, HSBC

While high energy prices are largely expected, the main upside surprise to our forecast is food inflation, up 0.8% m-o-m. It largely reflects the strong pass-through of elevated energy costs on food inflation, as there is a broad-based price increase across items including meat, egg and vegetables, based on data from the General Statistics Office (GSO). Moreover, there are signs that inflation has started to broaden out. Core inflation recovered to 2.0% y-o-y for the first time in almost two years, as domestic demand continues to gain traction.

Given elevated global oil prices, we expect upward pressures to inflation to persist. While we expect 2022 inflation to average 3.5% – still below the State Bank of Vietnam's (SBV) 4% inflation ceiling – price pressures will become stronger in 2H22. Based on our inflation forecasts, inflation will likely overshoot 4% from 4Q22 to 2Q23, increasingly calling for the SBV to start its monetary normalisation.

In short, Vietnam has benefited from a meaningful economic re-opening. Domestic demand is getting back on track, while its external engine continues to impress. That said, we also need to be mindful of rising risks to growth, particularly from surging energy prices. All things considered, we are raising our 2022 growth forecast to 6.9% (prev: 6.6%), but cutting our 2023 growth forecast to 6.3% (prev: 6.7%).

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