HSBC Global Research

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Vietnam at a glance

A resilient finish to a tough year

Free to View
Economics - Vietnam

- Vietnam's GDP growth rebounded after re-opening, rising 5.2% y-o-y in the fourth quarter, well ahead of market expectations
- This brings its 2021 GDP growth to 2.6%, the slowest pace in 30 years, reflecting the impact of months of hard lockdowns
- We expect Vietnam to return to solid growth of 6.5% in 2022, although the spread of Omicron poses risks, locally and globally

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A nice upside surprise

At the end of 2021, Vietnam delivered a stronger-than-expected 4Q growth of 5.2% y-o-y. For one, manufacturing activity improved quickly, while exports also climbed to record highs – largely thanks to elevated global demand for tech products and machinery. Meanwhile, services have also rebounded, but the recovery remains uneven. While consumer-facing services have benefitted from greater economic re-opening, tourism-related sectors remain in the doldrums.

Bright 2022 prospects

The firm 4Q print brings Vietnam's full-year GDP growth to 2.6%. This is the lowest growth in the past three decades: 2021 was, after all, a challenging year for Vietnam, with four months of hard lockdowns in its commercial hub. As fundamentals improve, we expect Vietnam to return to a solid growth track in 2022, delivering a bright broad-based growth story. We forecast 2022 growth to accelerate to 6.5%.

Wary of risks

That said, we believe the pandemic remains the biggest risk to growth. After hitting a trough in November, Vietnam's daily caseload has spiked. Depending on how well Vietnam weathers through the fifth COVID-19 wave, this will determine the recovery pace of local demand and international travel. However, unlike 2020, Vietnam is now in a better vaccine position, which should allow for a more nuanced calibration between health protection and economic revival.

Table 1. Summary of key recent economic indicators

	Oct 21	Nov 21	Dec 21
PMI	52.1	52.2	52.5
Exports (% y-o-y)	6.1	26.3	24.8
Imports (% y-o-y)	7.8	24.1	14.6
CPI (% y-o-y)	1.8	2.1	1.8
Manufacturing IP (% y-o-y)	-4.9	3.0	7.2

Source: CEIC, IHS Markit, HSBC

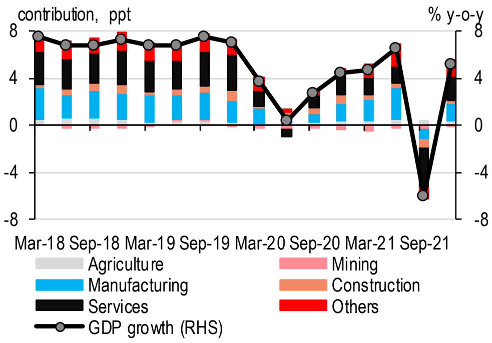
This is an abridged version of a report by the same title published on 11-Jan-22. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

The slowest GDP growth in 30 years

Strong bounce to conclude 2021

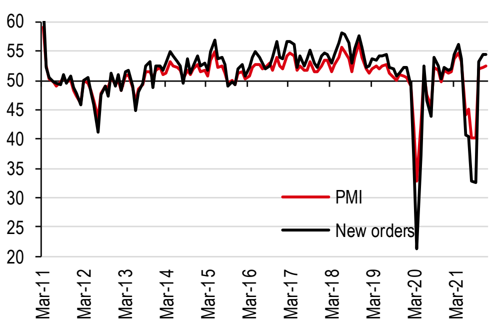
As usual, three days before 2022, Vietnam has become the first Asian country to release its 2021 transcript. Its 4Q21 GDP print grew strongly by 5.8% y-o-y, overshooting market expectations for a moderate growth (HSBC: 3.8%; Bloomberg: 3.9%; Chart 1). This brings its full-year GDP growth to 2.6% in 2021 – a positive number in a challenging year but also the slowest pace in the past 30 years. After all, it was a tough year for Vietnam, particularly for its commercial hub of Ho Chi Minh City (HCMC) and the surrounding provinces, which suffered four months of hard lockdowns until October. However, the good news is, the trough seems to have past.

Chart 1. Vietnam's GDP saw a firm rebound in 4Q21



Source: CEIC, HSBC

Chart 2. PMI continue to expand steadily in December

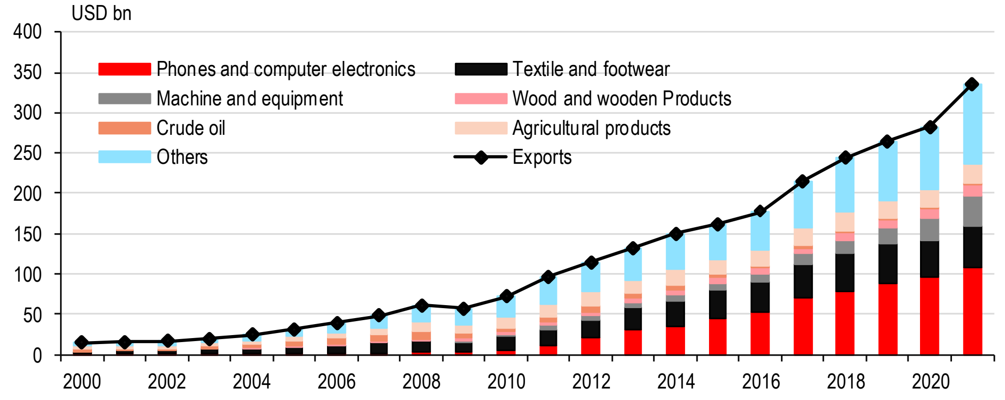


Source: IHS Markit, HSBC

Undoubtedly, Vietnam's supply chain disruptions have been put under the international spotlight in 2021. We have written extensively on the issue and identified where the acute pain was. Encouragingly, after seeing the first-in-a-decade quarterly contraction in 3Q, **manufacturing** activity resumed its pre-Delta COVID-19 variant expansion pace, roaring 8% y-o-y in 4Q. For 2021, with a growth rate of 6.4% y-o-y, manufacturing output remained a key pillar to Vietnam's economy, reassuring investors' confidence.

The positive recovery in manufacturing is also a reflection of Vietnam's improving **external sector**. After the strict lockdown in 3Q, Vietnam's exports saw a swift recovery, growing almost 19% y-o-y in 4Q (Chart 3). Meanwhile, hard-hit textile and footwear exports also returned to pre-Delta COVID-19 variant levels. Overall, for 2021, Vietnam's export growth jumped by 19%, thanks to firm electronics and machinery exports (Chart 4), reflecting still-elevated global demand and the resilient supply chain in the north, where tech giants are located.

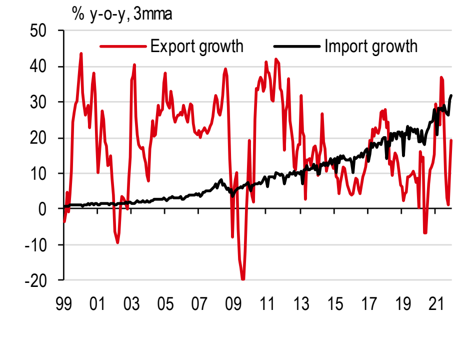
Chart 3. Exports saw strong growth in 2021, driven by electronics and machinery



Source: CEIC, HSBC

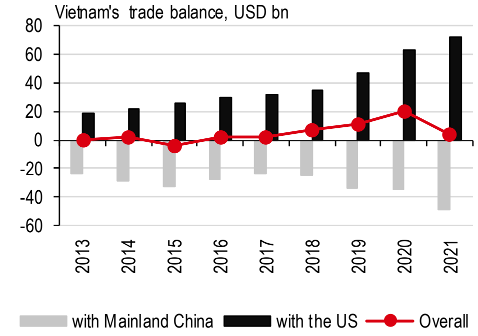
That said, Vietnam's external balance advantage was shrinking in 2021. Despite record-high exports, as a country heavily reliant on imports for its raw materials and intermediate goods, Vietnam also registered record-high imports, spiking by 26% in 2021. This led to a small trade surplus of USD4.6bn (Chart 5). While the full-year balance of payment (BoP) data are not available, a small trade surplus is unlikely to offset deficits in services and primary income. As such, Vietnam is likely to see a small current account *deficit* in 2021, possibly around 0.5% of GDP, putting downward pressure on the VND.

Chart 4. Exports saw a firm rebound in 4Q…



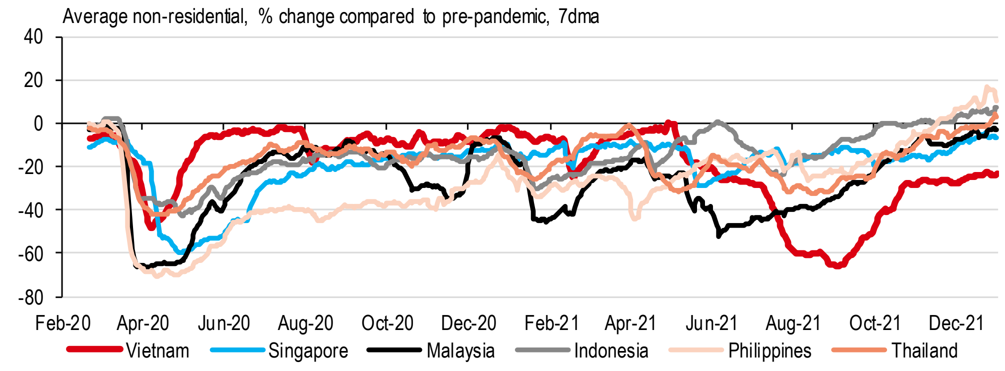
Source: CEIC, HSBC

Chart 5. …but the total trade surplus shrank in 2021



Source: CEIC, HSBC. Note: Mainland China and US data as of November 2021.

Chart 6. Vietnam's mobility has improved significantly from the lockdown but is still 20% lower than the pre-pandemic level

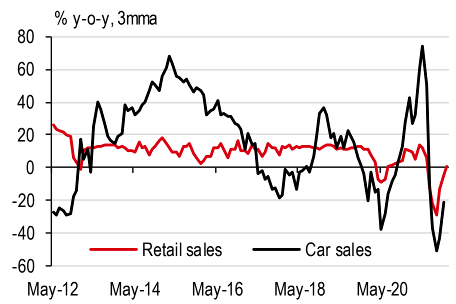


Source: CEIC, HSBC

Apart from recovering manufacturing, Vietnam's **services** also turned from the main drag in 3Q to the major support in 4Q. However, the recovery is uneven across sub-sectors. For one, 'human health & social work activities' and 'finance & banking' extended their strong y-o-y growth in 4Q. Also, consumer-facing services, such as wholesale and retail sectors, recovered from 3Q plunges, as the economy gradually re-opened from 1 October 2021. After all, mobility indicators have bottomed out of September's trough of 60% to around 20% by end-2021 (Chart 6). This has paved the way for improving retail sales, ending the year with a marginal positive momentum, on a three-month moving average basis (Chart 7).

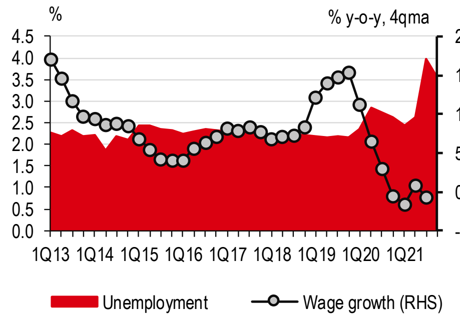
That said, spending on discretionary goods remained in contraction, as shown by falling car sales, for example. While the mobility index has creeped up, there is a long way to go to the reach pre-pandemic level. Part of the reason was attributed to lingering COVID-19 risks, in particular with rising Omicron variant concerns. However, part of the other equation was due to the still reeling labour market. While indicators pointed to an improvement in 4Q, the elevated unemployment rate and falling wages suggested lukewarm private consumption (Chart 8), which we estimate to be around 2% in 2021. Therefore, more direct cash transfers can be considered, especially for vulnerable households.

Chart 7. Retail sales have past the trough in 3Q



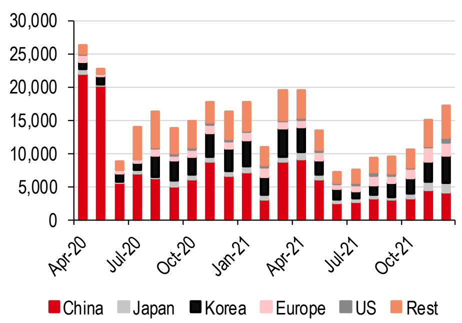
Source: CEIC, HSBC

Chart 8. But the labour market remains weak



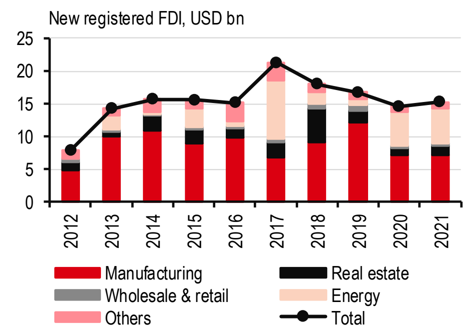
Source: CEIC, HSBC

Chart 9. Tourist arrivals picked up slightly, given the re-opening of five selected spots



Source: CEIC, HSBC

Chart 10. FDI remains a bright spot

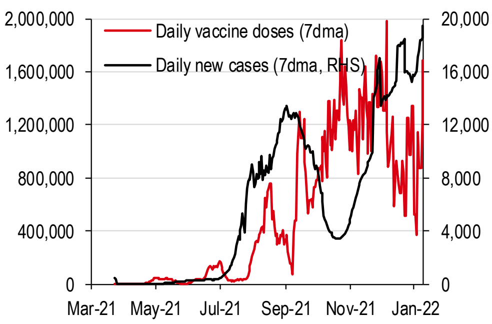


Source: CEIC, HSBC

Despite Vietnam's selected re-opening efforts from November, **tourism** has remained in the doldrums. Tourist arrivals exceeded 15k in December, thanks to visitors from mainland China and Korea, two of Vietnam's traditional source markets (Chart 9). However, the boost was still minimal compared to pre-pandemic days. Transport services barely grew in 4Q, while accommodation still contracted by more than 15% y-o-y. There is still a long way to return to pre-pandemic levels: transport and accommodation services were around 7% and 30% below their respective 2019 levels, making them two main laggards of the economy. That said, the start of 2022 may bring some hopes for these two sectors, as Vietnam has resumed commercial flight to eight main markets from
1 January, after two years of pause (*VNExpress*, 4 January).

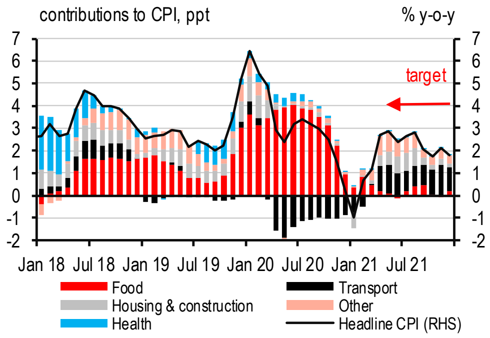
After concluding 2021 with a firm rebound from its worst contraction, we believe Vietnam is set to return to a firm broad-based growth track. On the one hand, manufacturing and exports are expected to continue leading, partly supported by resilient **FDI** commitments (Chart 10). On the other hand, domestic demand will likely further recover as lingering restrictions are gradually phased out and the labour market recovers. After two years of subdued growth, we expect Vietnam's growth to accelerated by 6.5% in 2022. The authorities also set the 2022 growth target at "6.5-7%", a similar pace as in the pre-pandemic days.

Chart 11. COVID-19 cases are surging rapidly in Vietnam



Source: Bloomberg, HSBC

Chart 12. Inflation fell below 2% in 2021, given weak demand-pull inflation

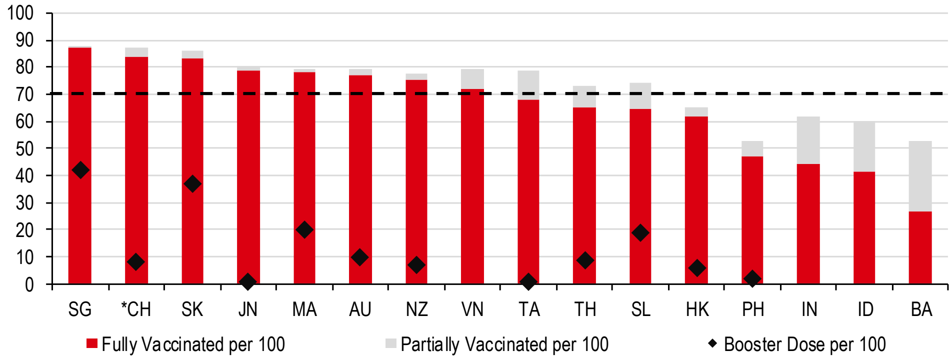


Source: CEIC, HSBC

That said, the biggest growth headwind to bear in mind is the current fifth **COVID-19** wave, not least with the highly transmissible Omicron variant. After dropping to November's lows of 4k, the number of daily infections has soared again, jumping to 20k+ as of late (Chart 11). Unlike the last time when HCMC was the epicentre of the fourth COVID-19 wave, cases, mostly from the Delta variant, have been spreading out, from Hanoi and Hai Phong in the north to central and the Mekong Delta provinces.

The good news is that Vietnam is in a better **vaccine** position so to protect itself from imposing another lockdown. It has fully vaccinated 70% of its population by end-2021, with a focus on its booster drive (Chart 13). Health authorities have reduced the interval time from six to three months for booster shots (*Vietnam News*, 20 December). As Vietnam's vaccine drive has accelerated from last October, this means that 1Q22 will be the main period when such efforts will be pushed. HCMC has led the country in giving booster shots to prioritised groups from early December, and the government targets to finish its booster campaign by the end of 1Q22. Therefore, how fast local restrictions can be removed and international travel be expanded will largely hinge on Vietnam's response to the lingering pandemic.

Chart 13. Vietnam has fully vaccinated 70% of its population but lags behind in terms of booster shots



Note: *CH – mainland China and its booster shot data are available until 10 December; PH, SG, and VN data are from the respective authorities; BA data are available until 17 December; no diamond marker means no booster data are available.
Source: Our World in Data, HSBC

One last word on **inflation**. While the economy gradually re-opens, price pressure has kicked in at a much slower-than-expected pace. Headline inflation decelerated to 1.8% y-o-y in December, falling short of consensus (HSBC: 2.1%; Bloomberg: 2.3%; Prior: 2.1%). This brings full-year inflation to 1.8% in 2021. While elevated transport cost (+11% y-o-y) was the main push for inflation, lower food prices, partly thanks to base effects, coupled with weak demand-pull inflation, drove the slowest growth of inflation since 2015. As economic activity normalises in 2022, we expect price pressure to kick in, but the pace should be manageable. We forecast headline inflation to grow 2.7% in 2022, below the State Bank of Vietnam's (SBV) 4% inflation ceiling. While inflation is unlikely to be a main concern for the central bank in 2022, the health of the real estate market may come into greater focus.

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