

# Macro Note

## Vietnam: Off To A Slow Start In 1Q23

Thursday, 30 March 2023

Global Economics & Markets Research  
[GlobalEcoMktResearch@uobgroup.com](mailto:GlobalEcoMktResearch@uobgroup.com)  
[www.uob.com.sg/research](http://www.uob.com.sg/research)

Suan Teck Kin, CFA  
Head of Research  
[Suan.TeckKin@uobgroup.com](mailto:Suan.TeckKin@uobgroup.com)

- Vietnam's real GDP growth in 1Q23 decelerated further to 3.32% y/y, from 5.92% in 4Q22 and missing both consensus and our forecasts. The main cause for the weak performance was due to manufacturing which dipped into negative territory with a 0.4% decline, for the first contraction since 3Q21.
- Some easing signs are surfacing on the inflation front, as Vietnam's consumer price index rose 4.18% y/y in 1Q23, and below government's target of 4.5%. However, core inflation (which excludes food, energy, and other public services prices) accelerated to 5.01% y/y in 1Q23 from 4.76% in 4Q22, a trend that is likely to be of concern to the central bank.
- **Outlook** - With 1Q23 moving off to a slow start, which will likely hamper the full year's performance, we lower Vietnam's full year GDP growth forecast for 2023 to 6.0% from our earlier call of 6.6% and against official forecast of 6.5%. In view of the latest economic performance and as SBV balances between economic growth while ensuring price stability, we expect an increasing bias for SBV to shift towards a more accommodative stance ahead. With the US Fed poised to end its rate hike cycle as soon as May 2023 and that domestic inflation rates are showing some tentative signs of turning, we maintain our view that the SBV will cut its refinance rate sometime in 2Q23, by 100bps to 5.00%.

### Vietnam's Economic Growth Pace Decelerates In 1Q23

Data released by General Statistics Office (GSO) on Wed (29 Mar) showed Vietnam's real GDP growth rate in 1Q23 decelerated further to 3.32% y/y, from 5.92% in 4Q22 and the 13.71% surge in 3Q22. The outcome missed the consensus estimate of 4.80% and our call of 6.45%, and was the slowest pace of expansion since the -6% fall in 3Q21 when the economy was in a state of shutdown as a result of the COVID-19 pandemic.

In terms of sectoral performances, manufacturing which accounts for about 23% share of the economy, dipped into negative territory with a 0.4% decline in 1Q23 for the first contraction since 3Q21, a marked downward trend from the 3% gain in 4Q22 and 7.7 rise in the same quarter in 2022. Meanwhile, services sector (45% share) managed to cushion some of the losses, rising 6.8% y/y in the quarter, compared to 8.1% increase in 4Q22 and ahead of the 4.6% pace in 1Q last year.

### Softening Of External Demand A Main Drag Factor

The main cause for the manufacturing sector's poor performance came mainly from weak external demand, which was largely expected. Exports in 1Q23 fell 11.9% y/y to US\$79.2 bn, compared with 12.9% increase in the same quarter last year, while imports declined 14.7%, which resulted in a trade surplus of US\$4.1 bn for the quarter and the third consecutive quarter of trade surplus.

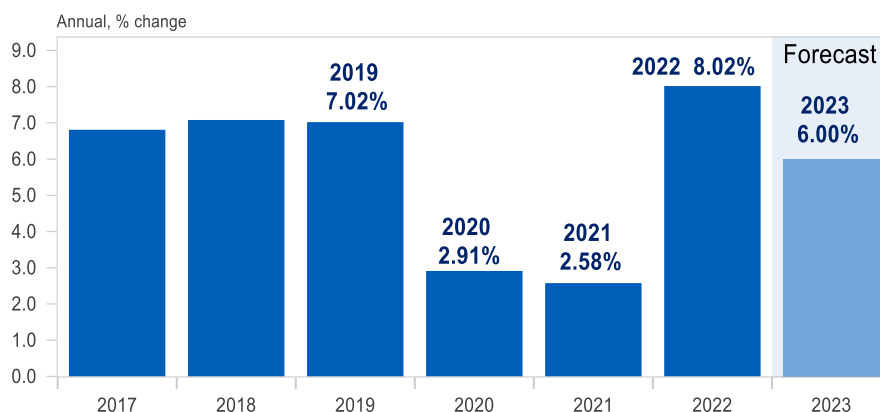
Reflecting weak global demand which has softened on the back of tightened monetary policy globally, exports to the US totaled US\$20.6 bn in 1Q23 for a 23.4% y/y decline. Smartphones and garments, among the biggest export earners for Vietnam, posted a decline of 15% y/y and 17.4% y/y to US\$13 bn and US\$7.2 bn, respectively, according to the GSO.

Some easing signs are surfacing on the inflation front, as Vietnam's consumer price index rose 4.18% y/y in 1Q23, and below government's target of 4.5%. Inflation rose on the back of higher food, housing, and education costs. For the month of Mar, consumer price index gained 3.35% y/y but declined 0.23% m/m, indicating a slowing trend for inflation. Higher education expenses saw a big jump of 10.13% y/y during the quarter and continued to drive up living costs and contributed the most to the annual inflation, followed by housing and construction materials prices, which increased 7.17% y/y and the cost of food and food services went up 4.41%, according to the GSO.

Despite a drop of 11.09% in fuel prices, core inflation (which excludes food, energy, and other public services prices) accelerated to 5.01% y/y in 1Q23 from 4.76% in 4Q22 and 3.17% in 3Q22. This trend is likely to be of concern to the central bank as core inflation rose 4.88% y/y in Mar, the 6th straight month that it is hovering above the 4.5% pace.

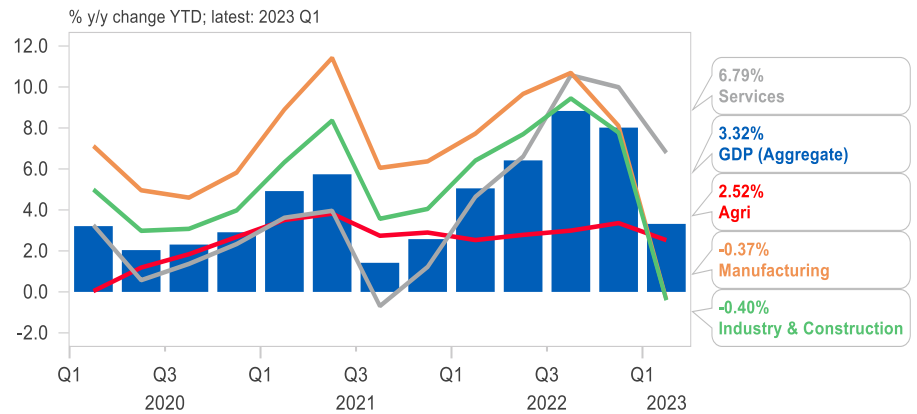
#### Vietnam: Annual Real GDP Growth

Source: Macrobond, UOB Global Economics & Markets Research



## Vietnam: Real GDP by Sectors YTD, Quarterly

Source: Macrobond, UOB Global Economics & Markets Research



## Vietnam: Real GDP by Sectors YTD, Detailed Breakdowns

Source: Macrobond, UOB Global Economics & Markets Research

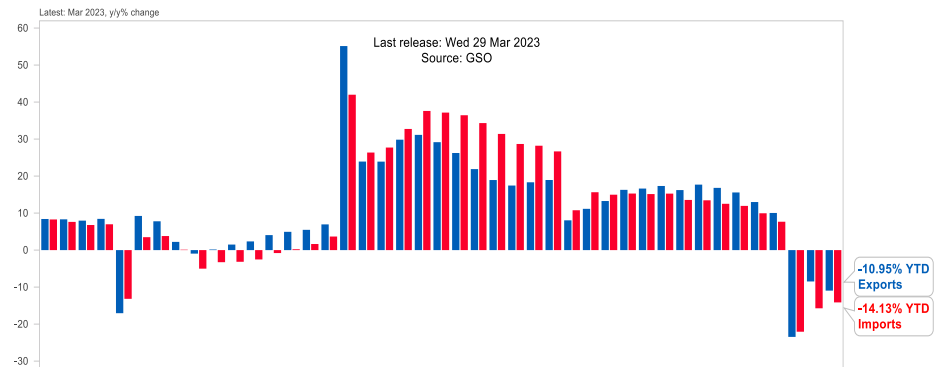
Last release: 2023-03-29  
Vietnamese General Statistics Office

	% y/y change	2023 Q1 YTD	Prev Qtr YTD	1Y ago YTD
<b>Total (Aggregate)</b>		3.32	8.02	5.05
<b>Agriculture, Forestry &amp; Fishing, Total</b>		2.52	3.36	2.53
Agriculture, Forestry & Fishing, Agriculture		2.43	2.88	2.40
Agriculture, Forestry & Fishing, Fishery		2.68	4.43	2.61
Agriculture, Forestry & Fishing, Forestry		3.66	6.13	4.48
<b>Industry, Industry &amp; Construction, Total</b>		-0.40	7.78	6.41
Industry, Construction		1.95	8.17	3.28
Industry, Electricity, Gas, Steam & Air Conditioning Supply		-0.32	7.05	7.11
Industry, Industry		-0.82	7.69	6.97
Industry, Manufacturing, Total		-0.37	8.10	7.72
Industry, Mining & Quarrying		-5.60	5.19	1.11
Industry, Water Supply, Sewerage, Waste Management		5.38	7.45	6.46
<b>Services, Total</b>		6.79	9.99	4.64
Services, Accommodation & Food Service Activities		25.98	40.61	-1.18
Services, Activities of Communist Party, Public Admin		4.46	3.66	2.92
Services, Activities of Households as Employers		4.24	4.02	2.73
Services, Administrative & Support Service Activities		17.99	30.40	-3.71
Services, Arts, Entertainment & Recreation		12.72	16.71	2.48
Services, Education & Training		3.15	5.70	5.20
Services, Financial, Banking & Insurance Activities		7.65	9.03	9.82
Services, Human Health & Social Work Activities		-1.56	-7.60	10.28
Services, Information & Communication		1.50	7.80	5.85
Services, Other Service Activities		12.32	19.19	-4.02
Services, Professional, Scientific & Technical Activities		6.12	6.21	6.27
Services, Real Estate Activities		-0.11	5.90	1.85
Services, Transportation & Storage		6.85	11.93	6.97
Services, Wholesale & Retail; Repair of Motor Veh		8.09	10.15	3.42
Taxes Less Subsidies on Products, Total		2.58	5.70	4.58

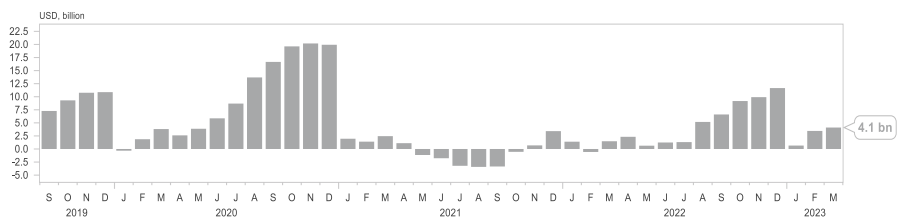
■ Latest YTD    ● 1Y ago

## Vietnam: Foreign Trade YTD

Source: Macrobond, UOB Global Economics & Markets Research

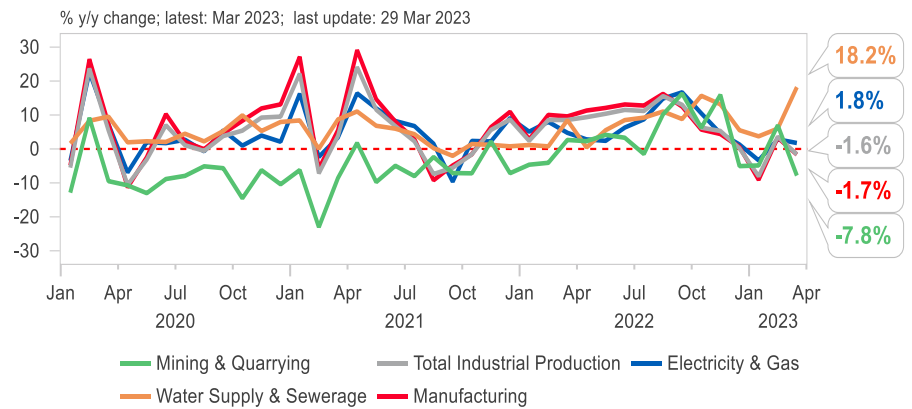


Vietnam: Trade Balance of Goods, YTD Mar 2023



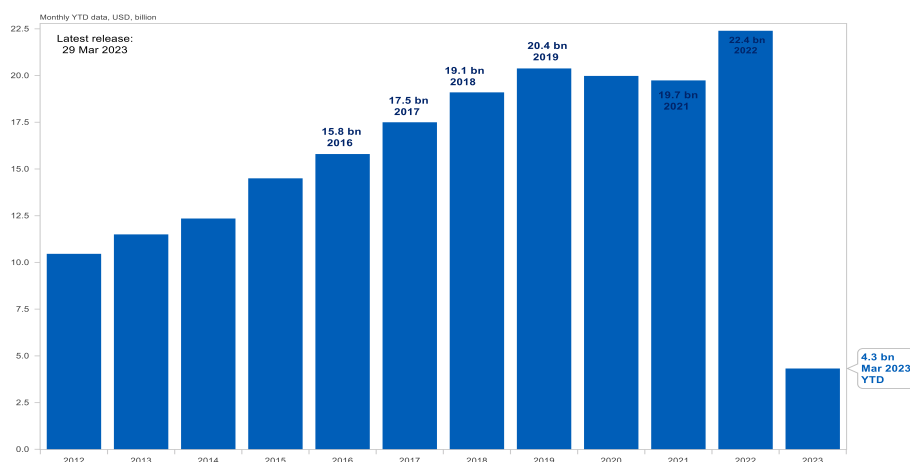
## Vietnam: Manufacturing Activities

Source: Macrobond, UOB Global Economics & Markets Research



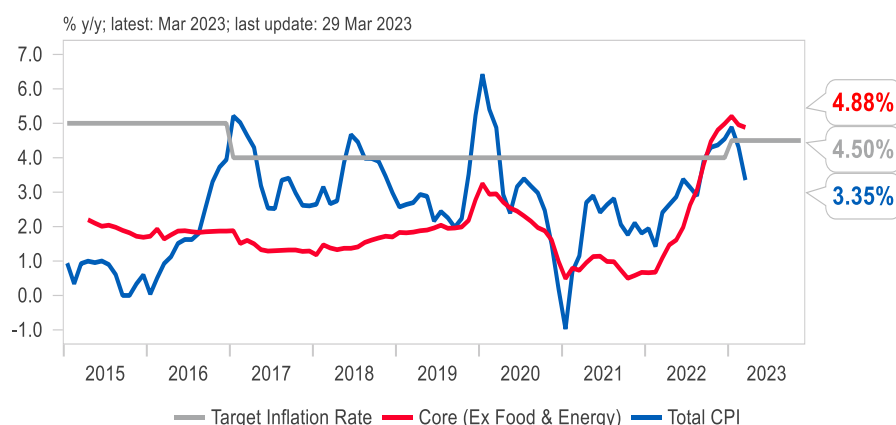
## Vietnam: Foreign Direct Investment (Realized Capital)

Source: Macrobond, UOB Global Economics & Markets Research



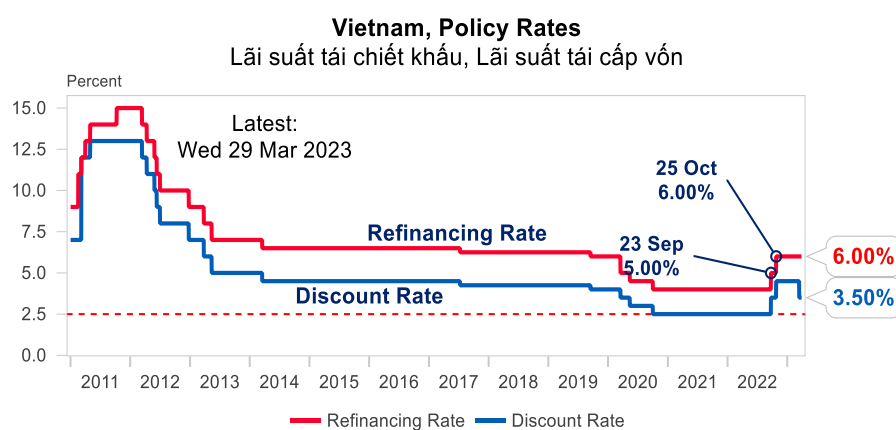
## Vietnam: Consumer Price Index (CPI)

Source: Macrobond, UOB Global Economics & Markets Research



## Vietnam: Central Bank Interest Rates

Source: Macrobond, UOB Global Economics & Markets Research



## Outlook – Trimming 2023 GDP Forecast To 6.0%

Vietnam's 1Q23 GDP performance turned out to be far weaker than expected, largely due to the softening global demand. Domestic demand managed to hold up well as shown in the decent pace of growth for services sector output.

However, the strong rebound in 2022 is unlikely to be sustainable and overall growth momentum is likely to moderate further in 2023, with 1Q23 moving off on a slow start and will likely hamper full year's performance. As such, we are lowering Vietnam's full year GDP growth forecast for 2023 to 6.0% from our earlier call of 6.6% and against official forecast of 6.5%. The revised projection assumes a rebound of GDP growth to 5.9% y/y in 2Q23, and an average pace of 7.4% y/y in 2H23 on the back of a recovery in global demand and strengthening of domestic services activities.

## SBV To Shift Policy Stance Ahead?

Back in late 2022 during the Sep-Nov period, the State Bank of Vietnam (SBV) had embarked on a flurry of policy moves in view of aggressive US Fed interest rate hikes, USD strength, and inflation pressures. SBV then unexpectedly raised its key interest rates by 100 bps on 22 Sep, followed by another round of 100 bps hike a month later (24 Oct). In between, the SBV announced on 17 Oct the widening of the USD/VND trading bands to +/-5% from +/-3%, to allow for greater flexibility for the VND in response to a strong USD.

Fast forward to 16 Mar 2023, the SBV unexpectedly lowered its discount rate by 100bps to 3.5% (from 4.5%) in an attempt to boost economic growth amid global uncertainties as US and European banking sector mired in a crisis of confidence. SBV also reduced the overnight lending rate in the interbank market by 100bps to 6% and trimmed the cap on the lending interest rates for short-term loans in some sectors to 5% from 5.5%.

But the most important part in the latest policy move was that SBV left the refinancing rate intact at 6%. This signals that the policy stance remains unchanged despite cuts in other interest rates.

In view of the latest economic performance and as SBV balances between economic growth while ensuring price stability, we expect an increasing bias for SBV to shift towards a more accommodative stance ahead. With the US Fed poised to end its rate hike cycle as soon as May 2023 and that domestic inflation rates are showing some tentative signs of turning, we maintain our view that the SBV will cut its refinance rate sometime in 2Q23, by 100bps to 5.00%. For now, we think this could be a one-off move, and more rate cuts may be on tap if domestic price pressures ease off by a sharper pace, although this is highly uncertain for now going by the latest inflation data.

### Our Forecast

Source: Global Economics & Markets Research

%	24 Mar 2023	2Q23F	3Q23F	4Q23F	1Q24F
VND Refi Rate	6.00	5.00	5.00	5.00	5.00

## Disclaimer

This publication is strictly for informational purposes only and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose, and is also not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to its laws or regulations. This publication is not an offer, recommendation, solicitation or advice to buy or sell any investment product/securities/instruments. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. Please consult your own professional advisors about the suitability of any investment product/securities/ instruments for your investment objectives, financial situation and particular needs.

The information contained in this publication is based on certain assumptions and analysis of publicly available information and reflects prevailing conditions as of the date of the publication. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The views expressed within this publication are solely those of the author's and are independent of the actual trading positions of United Overseas Bank Limited, its subsidiaries, affiliates, directors, officers and employees ("UOB Group"). Views expressed reflect the author's judgment as at the date of this publication and are subject to change.

UOB Group may have positions or other interests in, and may effect transactions in the securities/instruments mentioned in the publication. UOB Group may have also issued other reports, publications or documents expressing views which are different from those stated in this publication. Although every reasonable care has been taken to ensure the accuracy, completeness and objectivity of the information contained in this publication, UOB Group makes no representation or warranty, whether express or implied, as to its accuracy, completeness and objectivity and accept no responsibility or liability relating to any losses or damages howsoever suffered by any person arising from any reliance on the views expressed or information in this publication.