1 July 2024

Global Markets Research

Research Alert

Vietnam's 2Q GDP grew a strong 6.9% y/y

Better-than-expected acceleration from 1Q growth, driven by trade and FDI

Targeted GDP growth of 6.0-6.5% for 2024 achievable given 1H's +6.4% growth

Inflation pressures picking up; expect SBV to maintain policy rates in 2024

Summary

Vietnam's economy grew 6.9% y/y in 2Q, its quickest since 3Q of 2022, faster than all estimates and an uptick from 1Q's +5.7% y/y increase. This brings 1H growth to +6.4% y/y, with the economy largely buoyed by robust exports and foreign direct investment. Rising inflation, nonetheless, remained a challenge for Vietnam.

Exports and FDI drove the manufacturing sector and the economy

The industrial sector remained strong, with the manufacturing sector growing a stellar +8.7% YTD, driving growth on the supply side. Further supporting growth was an improving construction sector, as well as a robust services sector, driven by strong tourism-related as well as probably, domestic spending. On the demand side, consistent double-digit growths in exports since the beginning of the year, alongside resilient FDI supported the manufacturing sector as well as the overall economy. Exports grew a strong 10.5% y/y in June (May: +15.8% y/y), shored by strong demand for smartphones, electronics and garments, while disbursed and pledged FDI rose 8.2% and +13.1% YTD respectively.

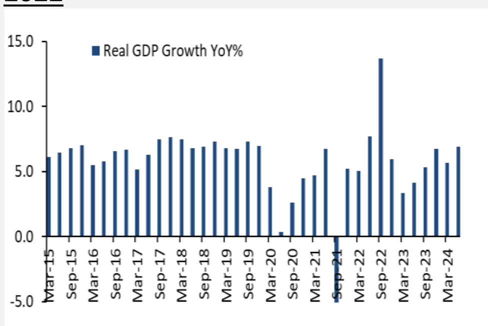
Inflation has crept up near the inflation target ceiling of 4.0-4.5%

On the inflation front, inflation pressures are building, with Vietnam's CPI for June remaining elevated at 4.3% y/y (May: 4.4% y/y) and nearing the government's inflation target ceiling of 4.5% for the year. While the government attributes the uptick partially to temporary factors like higher pork prices due to the African swine fever outbreaks, higher medical costs, imported inflation and the government's decision to raise base salaries for state employees by 30% and pensions for retirees by 15% wef from 1 July is expected to add to inflation pressures.

Outlook

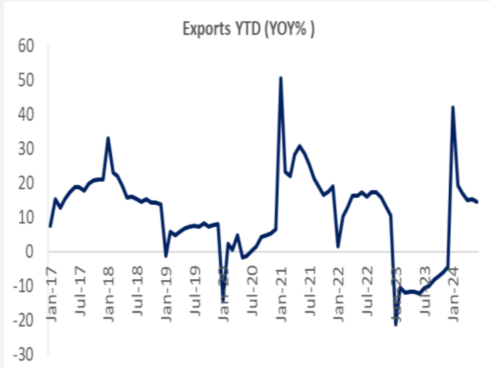
The Vietnamese economy continues in a positive trend, and the IMF expects the economy to expand close to 6% this year, at the lower end of the Government's target: 6.0-6.5%. Given that the economy has already chalked up growth of 6.4% YTD, the government's GDP target for 2024 is easily achievable. The economy will nonetheless, face many difficulties and challenges, amid external demand risks and trade fragmentations, and on the domestic side, the IMF has flagged concerns of some risks to its financial stability, in particular related to the construction sector.

Figure 1: Strongest growth since 3Q of 2022



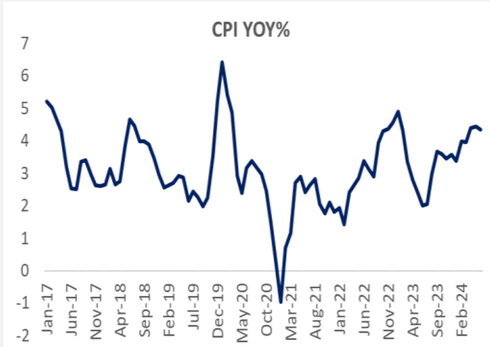
Source: Bloomberg

Figure 2: Robust exports spurred growth in 2Q GDP



Source: Bloomberg

Figure 3: Inflation has ticked up near the ceiling target



Source: Bloomberg

In terms of monetary policy, while Prime Minister Pham Minh Chinh, has said that policy would continue to prioritise growth and would stick to its flexible monetary policy, with an aim of further cutting banks' lending interest rates, reducing fees and boosting public investment. We nonetheless, expect the central bank to maintain status quo given the upside risks to inflation from a stronger economy as well as a weak VND, which could easily lead to a larger pass-through to Vietnam's domestic inflation.

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my