

## Vietnam: 3Q GDP surprised on the upside again

**Upside surprises in most economic data; but 6.5% growth target remains a tall order**

**Manufacturing- and exports-driven growth; consumer spending stayed strong**

**Inflation rate picked up but remained below 4%; giving SBV leeway to cut rates again**

### Summary

Economic growth picked up for the second quarter, accelerating more than expected to +5.3% y/y in 2Q (2Q: 4.1% y/y). Growth was predominantly driven by the manufacturing sector on the supply side and exports on the demand front. Consumer spending remained resilient. Other data released this morning also surprised on the upside, raising hopes that growth of 6.5% will be achieved but we remain sceptical at this juncture. YTD, the economy grew by 4.2% y/y, suggesting that the economy will have to achieve double-digit growth in 4Q to achieve the Government's growth target.

### Details

Within the supply side, both the manufacturing and construction sectors drove growth at +2.0% and +6.2% YTD. The services sector and agriculture sectors remained stable at +6.3% and +3.4% respectively, while the mining sector remained in contractionary mode. On the demand side, September data suggests that retail sales were stable at +7.5% y/y (Aug: +7.6% y/y), while exports recorded its first positive growth since February at +4.6% y/y (Aug: -7.6% y/y). Tourism-related sectors continued to drive retail sales, while the rebound in exports was primarily underpinned by agriculture products, while exports of electronics and electrical related products registered mixed and generally mild growths.

### Outlook

The latest data suggests that the Vietnamese economy has indeed stabilised and is expected to pick up pace over the rest of the year, but does not change our view that the 6.5% growth target remains at risk. In fact, the Asian Development Bank (ADB) recently cut its GDP forecast for Vietnam by 0.7ppts to 5.8% y/y for 2023 (2022: +8.0% y/y).

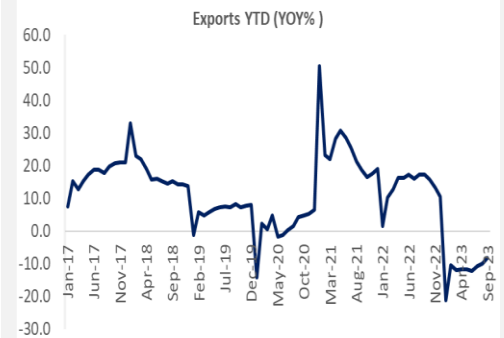
Domestic demand will be supported by still moderate inflation rate, impact from looser monetary policies as well and tourist spending on the consumer side as well as effective acceleration in public spending. The revival in tourism will also continue to support the services sector (tourist arrivals reached more than 1m in September, down 13.4% m/m but was 2.4 times higher y/y), while agriculture will benefit from rising food prices. The economy will, nonetheless, face headwinds from a weak global economy as well as on the domestic front, increasing number of businesses ceasing operations. YTD, the number of enterprises temporarily suspending business for a certain period

**Figure 1: Real GDP growth accelerated for the second straight quarter**



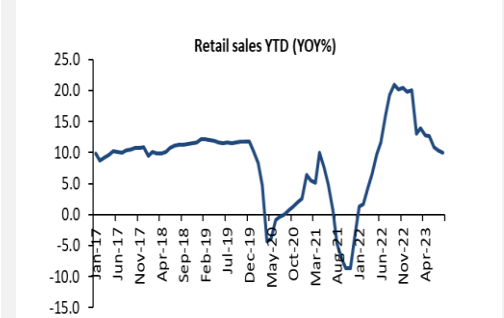
Source: Bloomberg

**Figure 2: Exports will continue to face headwind from slower global economy**



Source: Bloomberg

**Figure 3: Retail sales held steady on tourism**



Source: Bloomberg

of time rose 21.1% y/y, while the number of businesses stopped operating waiting for dissolution procedures jumped 26.9% y/y.

Inflation, meanwhile, accelerated for the third month to +3.7% y/y (Aug: +3.0% y/y) on higher price pressures for food, transport and education but remains mild below the government's target of 4.00% y/y. Although the State Bank of Vietnam (SBV) has cut the refinancing rates by a cumulative 150bps to 4.50%, the latest price print will give the central bank room to cut its policy rate further to 4.00% by the end of 2023.

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