WHAT'S NEWS?

Rebound in domestic economic activities but weaker external and fiscal accounts

- In May, domestic manufacturing and retail sales rebounded by approximately 10% compared to their April-levels but remained lower than during the same period last year.
- Foreign demand weakened as illustrated by the slight decrease in exports and in FDI inflows (y/y).
- At about 10% (y/y), the expansion of the credit to the economy was approximately three times faster than the GDP growth rate during the four first months of 2020, in line with the gradual easing of monetary conditions by the State Bank of Vietnam.
- In April, the Government only collected about 65% of the revenue reported a year earlier as the result of slower economic growth and new tax relief measures.
- In early July, the authorities will release the critically important GDP figures for the second quarter.
Vietnam entered Day 45 without any new cases of COVID-19 community transmission. As of May 31, 2020, 328 people have been infected with the virus (all new cases came from Vietnamese repatriated home from abroad) of which 279 cases have been discharged, corresponding to a recovery rate of 85 percent. No deaths have been recorded.

After suffering from the restrictive measures of the country during the month of April, the index of industrial production (IIP) rebounded by 11% in May compared to April but still remained about 3% lower than the level recorded in May 2019.

Retail sales also bounced back significantly in May. Both passenger and cargo transportation activities rose by 116% and 32% between April and May as a result of the easing of domestic mobility restrictions that started on April 23. This recovery is corroborated by the Google mobility indicators that, on average, rose from minus 30% to only minus 5% in comparison to the pre-COVID benchmark between mid-April and the week of May 25.

Although the value of Vietnam’s merchandise exports increased by about 5% between April and May, it was 5.5% lower than a year ago due to weaker external demand and some possible disruptions of global supply chains. Vietnam key labor-intensive exports such as garment and footwear decreased by 14% and 5% (y/y) while technology exports, such as smart phone, declined by 9% (y/y). In May, imports fell by nearly 6% (y/y) reflecting lower oil prices and slowdown in demand for foreign inputs by domestic firms.

Foreign Direct Investment (FDI) continued to flow into Vietnam during May but at a slower pace than reported in April. In the first five months of 2020, the total value of committed FDI amounted to $13.9 billion – still significant but equivalent to a year-on-year decrease of 17%.

Credit allocated to the economy rose to the equivalent of around 10% on yearly basis during Jan-Apr 2020. Although this increase was slower than the one recorded a year ago, it was almost three
the fall in domestic revenue aggravated in April when the state collected nearly 25% less than the previous month or only 65% of the figure recorded in April 2019. The General Department of Taxation has received more than 90,000 applications for postponement of tax and land use fee payments, worth totally VND26.2 trillion.

To watch: Vietnam economy has reacted quickly to the easing of domestic restrictions by recording a 10% increase in manufacturing and retail sales during May. Yet, the level of economic activities remains distant from pre-COVID period. The foreign sector has started to get hurt by weaker global demand. Meanwhile, the Government has continued to use monetary and fiscal policies to compensate for the financial impact of the coronavirus crisis, leading to the fast expansion of domestic banking credit and a severe fall in public revenue. The expected release of quarterly GDP figures in early July will help better monitor Vietnam economic trajectory but, regardless of these figures, greater attention should be on the potential impact of the rapid monetary expansion on inflation and the deepening of the fiscal deficit caused by underperforming tax collection.

Yet, the economy is far from complete recovery

The monthly headline CPI was flat in May, bringing the year-on-year inflation rate to only 2.4%, down from 2.9% in April and 6.4% in January 2020. Lower prices are mainly associated to the softening of the domestic demand for food and the record low oil price on international markets that was transmitted to domestic fuel and gasoline prices.

Total revenue collected by the Government during the first four months declined by 5.9% compared to the same period last year. The biggest declines were recorded for the value-added tax and corporate income tax, down by 9.3% and 7.3% respectively. In line with the slowdown in trade activities, the revenue collected from trade taxes decreased by 19% (y/y).