Macroeconomic Review 2013

Report No. 02/2013

Contact

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March quarter 2013 – All Quiet on the Western Front

International economic conditions
Global economic conditions in early 2013 were consistent with global economic growth being around trend. As the once-reliable western engines of global growth have all but stalled, the global outlook continues to be fuelled by Asia’s rising dragons.

Growth in the US has continued to moderate, supported by strengthening private demand. Despite tax increases implemented at the start of the year, household spending had increased in recent months and housing sector indicators continue to point to further improvement. However, the outlook for 2013 remains subdued, with fiscal cuts in Q2 expected to detract from growth. Employment conditions have stumbled along, and the unemployment rate remains only slightly lower than mid-2012. Reflecting these developments, the IMF’s recent April 2013 World Economic Outlook has cosmetically downgraded forecast growth from 2.0 per cent to 1.9 per cent for 2013 (Table 1).

Across the Atlantic, conditions in the euro area have also yet to improve. GDP declined in the December quarter and the unemployment rate had risen to almost 12 per cent. Overall activity is likely to remain flat in early 2013. The conflicting views of members, most recently highlighted during negotiations over the support package for Cyprus, reflect the continued economic fragility experienced in the region. The IMF forecasts growth in the euro area to be -0.3 per cent for 2013, a downgrade of 0.1 percentage points compared with their January forecasts.

In China, a range of monthly indicators were consistent with steady economic growth. Growth in the first quarter registered at 7.7%, slightly below market expectations. Looking ahead, this growth is unlikely to change drastically, with strong public investment assisted by a pick-up in the real estate market remaining key drivers. Further support for social housing construction as well as additional restrictions on property transactions are expected to support private demand.

Economic conditions in greater East Asia have also been more positive relative to 2012. In India, GDP accelerated in the December quarter, allaying any fears formed during the previously weak quarters. In Japan, measures of confidence had picked up following the announcements of fiscal expansion and changes to monetary policy earlier in the year. Initial results from Japan’s bold monetary experiment appear promising with inflation expectations and forecast growth revised upwards.
Table 1: Global growth estimates

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<td>-0.1</td>
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<td>OECD - November 2012</td>
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Financial markets

International financial markets remained steady during the first quarter, despite developments in Cyprus. Consistent with the low-interest rate outlook, bond yields fell slightly or remain largely unchanged in Europe and the US. In Japan, however, expectations of further balance-sheet expansion by the Bank of Japan had contributed to a decline in government bond yields to near record lows.

Equity markets in both the United States and euro area were around four per cent higher over the first quarter, while the Japanese market had risen by around 20 per cent since the start of the year (Figure 1).
Most major currencies continued their recent trends. In particular, the Japanese yen depreciated further against the US dollar in response to aggressive monetary policy while the euro depreciated against the US dollar as a result of developments in Cyprus. More recently, with gold prices suffering their sharpest fall since the 1980s, the US dollar has continued to cement its position as the world’s reserve currency.

**The Vietnamese economy**

**Aggregate output**

GDP grew by 4.89% in the first quarter (Figure 2, Figure 3), marginally higher than the growth rate of the same period last year, but below the government’s target growth of 5.5%. Among the three sectors, services remain the standout sector in the Vietnamese economy with highest growth rate of 5.65%. The increase was also driven by a 4.93% increase in industry and construction and a slightly growth in agriculture, forestry and fisheries (2.24%). Growth in Q1 appears to represent a continuation of the moderation seen over the past year with the industry and construction sector the underperforming relative to recent history. Indeed, volatility in this sector has been the primary driver of volatility in the aggregate economy. Unless significant policy intervention is mandated to drive domestic growth, Vietnam’s growth is likely to remain around current rates as a direct consequence of softer global conditions.
Production

Agriculture, forestry and fisheries
This sector grew 2.24% over the year and contributed 0.31 percentage points to GDP growth in the quarter (Figure 4). The poor string of slow growth rates has not been seen since 2009 and is partly responsible for the poor performance in aggregate growth. In particular, agriculture, forestry and fishery rose 2.03%, 5.38%, and 2.28% respectively.
Agriculture
In real terms, agricultural production is estimated to have increased by around 2.5% over the year. This was driven by across the board increases in crop production (up 3.0%), animal husbandry (up 1.4%) and services (up 2.2%).

Forestry
Following the upward trend in growth in recent years, total wood production grew significantly by 8.2% compared to Q1/2012 thanks to an increase in selling price and stable supply and demand of wood materials. It is notable that total concentrated planted area reduced by 17.6% while decentralized planted trees and firewood production increased by 3.2% and 3.1% respectively.

Fisheries
Total estimated fisheries production reached 1,151,000 tons, a 1.1% increase from the same period last year. The inconsiderable increase was driven by a 4.1% rise in shrimp production, offset by a small decline in fish production of 0.1%.

Aquaculture production in Q1/2013 was estimated to be 500,000 tons, representing a reduction of 2.3% against Q1/2012 of which fish production decreased by 5%, shrimp production increased by 4.5%. The decrease has been driven by unprofitable catfish production.

![Figure 4: Growth in the agricultural, forestry and fisheries industry](image)

Source: General Statistics Office, CEIC data and DEPOCEN.

Industry and construction
Industrial Production Index (IPI) of the first quarter (an aggregate measure of industries such as manufacturing, mining and utilities) increased 4.9% from last year’s same period, of which mining and quarrying grew by 2.1%, manufacturing by 5.4%, power production and supply by 8.5%, and water supply and waste treatment by 9.5%. This index worryingly recorded a three year low. Moreover,
around 15,200 firms have dissolved or ceased operations in the first quarter. The inventories index in March of manufacturing industry registered an increase of 16.5% against last year’s same period.

However, IPI index is projected to climb to 6% in the coming quarter thanks to the fact that governmental supporting policy comes into effect with easier access to capital and better business environment. Industrial producers are advised to restructure their productions and focus on the quality of the product.

**Services**
Services grew by 5.65% compared to the same period last year, becoming a major driven factor of economic growth. Moreover, the services sector still remains a leading position in terms of growth rate. Indeed, growth in services is projected to continue through 2013.

**Total retail sales**
Total retail sales of consumer goods and services of the first quarter were estimated to increase by 11.7% from the same period in 2012 (if the factor of inflation were excluded, it would be 4.5%, slightly lower than last year’s figure). By retail sector, trade business rose 10.8%; hotel and restaurant by 15.4%; service by 15.3%; tourist by 4%. Interestingly, when comparing the retail shares of the two major cities of Ho Chi Minh and Hanoi, two observations can be made (Figure 5). Firstly, both cities have accounted for around 40% of all retail trade since mid-2008. Over these years however, while Ho Chi Minh’s share of retail has remained fairly stable, Hanoi’s has been slowly on the rise.

**Figure 5: Retail share by city (original data)**

![Retail share by city (original data)](image)

*Source: General Statistics Office, CEIC data and DEPOCEN.*

**Transport**
Passenger carriage in the first quarter grew 6.8% against the same period in 2012. By method of transportation, the highest increase occurred to land transport of 7%, followed by river transportation
and sea with 5.3 and 1.7% respectively. On the other hand, there are significant declines in railway (down 4.4%), and air transportation (down 2.2%).

Total cargo transport was estimated to rise 4.9% in the first quarter. The result was driven by a considerable decline of overseas transport (down 8.4%) and a strengthening in domestic transport (up 5.8%). By transport category, land cargo increased by 7.8% while the remaining means of transportation registered a decline. Particularly, river transport, seaway and railway reduced by 0.4%, 9.8%, and 5.1% correspondingly.

Tourism and travel
The international tourism and travel sector witnessed a small decline (-3.9%, 73,000 people) in international arrivals in the first three months with an estimated 1,800,000 people visiting Vietnam over the March quarter. The result was driven by an across the board decrease in tourism (-0.8%, 8500 people), business (-4.8%, 15,500 people), family (-11.0%, 37,000 people) and other travel purposes (-11.7%, 12,500 people). Decomposing these travel categories as a share of total arrivals reveals a number of trends (Figure 6). Tourism remains the overwhelming reason for arrivals and while it experienced a surge in the early-to-mid 2000s, the share has since remained steady. More concerning however, is stabilization of both business and relative-related travel shares in recent years. Both have the potential to reduce future growth with the former consistent with a slowdown in FDI (Figure 7) and the latter an indicator of slowdown in future remittances.
External demand

Exports
The value of good exports in the first quarter of 2013 was estimated at approximately 29.7 billion USD, 19.7% higher than the same period in 2012. Exports by FDI firms increased by 25.6% to gain around 19.3 billion USD, accounting nearly 65% of total export turnovers while the domestic economic sector increased by 10.1% to gain 10.4 billion USD, accounting 35% of total exports turnovers. The increase in exports was almost entirely driven by growth in FDI sector, which contributed 15.8 percentage points while the domestic sector contributed 3.9 percentage points.

Significant growth in total export turnovers resulted from significant increases of heavy industrial and mineral goods, rising by 27.4% to 13.5 billion USD, light industrial and handicraft items, up 15.1%, and agricultural and forestry items, up 6.7% while exports of fishing items decreased slightly to 1.3 billion USD. Growth in exports of heavy industrial and mineral goods was mainly confined to strength in exports of telephones and components.

The majority of exports turnover was heavy industrial and mineral goods, accounting for 45.5% while gold item (there was not the item in the 1st Quarter of 2012) made up 1.3%, the lowest share.

By destination, the EU remained the Vietnam’s largest export partner. Exports to the EU rose by 32% to reach an estimated 5.7 billion USD. Exports to ASEAN, US, and China increased by 29.4%, 17%, 8.2%, respectively.

Imports
The value of goods imports in the 1st Quarter 2013 grew to 29.2 billion USD, an increase of 17% from the same period last year. Imports by FDI firms rose by 25.5% to gain around 16.1 billion USD, accounting nearly 55.3% of total import turnovers while the domestic economic sector rose by 7.9% to gain 13.1 billion USD, accounting for 44.7% of total import turnovers. The increase in imports was
almost entirely driven by growth in FDI sector, which contributed 13.2 percentage points while the domestic sector contributed 3.8 percentage points to the general growth.

Imports of intermediate goods (means of production) grew by around 15.9% in the 1st Quarter 2013, reaching an estimated 26.7 billion (accounting 91.5% total import turnovers). This was mainly driven by greater demand for machinery. Equipment and means of transport goods imports, increased by 28.7% to reach 11.2 billion USD, and raw materials, increased by 7.4% to reach 15.5 billion USD.

By destination, China remained Vietnam’s major source of imports. With growth of imports from China rising by 31% in the 1st Quarter 2013, Vietnam’s share of imports from China rose to 7.6 billion USD. Growth in imports from ASEAN (4.6%), Republic of Korea (47%), the EU (20%), and USA (3.3%) also grew.

![Figure 8: Trade balance (year to date)](image)

Overall, Vietnam record a small trade surplus of 481 million USD in the 1st Quarter 2013 (Figure 8). The result was driven by a considerable trade surplus of 3.2 billion USD in FDI (19.3 billion USD in exports, 16.1 billion in imports) and offset by a trade deficit in the domestic sector of 11.7 billion USD (10.4 billion USD in exports, 13.1 billion in imports).

**Consumer prices**

March quarter CPI rose 2.39% compared to the December quarter, and rose 6.91% compared to the same period in 2012. The inflation in the 1st Quarter 2013 had the lowest growth rate from 2009 onwards. The low inflation was a sign of weak aggregate demand and purchasing power.

Although inflation appears to have moderated over recent periods, one worrying trend shown in the previous figure has been the steady increase in health and personal care prices since mid-2012 and continued through the March quarter (Figure 9). In the first quarter 2013, the fastest growing consumer price categories were for medical service (up 55.4%), education service (16.0%), and textile, footgear
and hats (up 8.7%). The slowest growing consumer price categories include food (down 4.1%) and post and telecommunications (down 0.3%).

March’s CPI decreased to 0.19% against the previous month. The fall was mainly a consequence of decline of 0.53% in catering and related service. March’s CPI rose 2.39% from 12/2012 and 6.64% from the same period last year. Looking ahead, the National Financial Supervisory Commission forecasts that the inflation will be from 6% to 7% in 2013, below the government’s target growth of 8%.

**Risks and outlook**

Events during the first quarter of 2013 have had little impact on the overall global and regional outlook. In the US, fiscal cuts during the second quarter will hamper growth, though the full impact remains uncertain. However, the central expectation among many global institutions is for trend growth in 2013. While this may not be the preferred outlook for the developed world, in many ways, this can be viewed as a positive development for the Asia region. That is, Asia is showing signs of sustaining more moderate growth rates.

Domestically, a slight downgrade in the US market is expected to be largely offset by higher growth in Japan. However, the Vietnam still appears to be struggling to cope with balancing growth and inflation, with the mild inflation outcome of Q1 indicative of sluggish growth. In an environment where 10% annual inflation is consistent around 6% real growth, inflation outcomes that are around 7-8% suggest real growth of around 5% for 2013. This represents a minor downgrade in our growth estimates compared to three months ago and is similar to the Asian Development Bank’s recent March forecast of 5.2 per cent for 2013 and 5.6 per cent for 2014. The silver lining is that our outlook for CPI inflation in 2013 and 2014 has now been downgraded to be consistent with the Government’s 8% target, and the Asian Development Bank’s forecasts of 7.5% for 2013 and 8.2% for 2014.
While external risks have improved, domestic risks to Vietnam remain unchanged and largely, on the downside. Like much of the past decade, continued global and regional integration will continue benefitted growth over much of the past decade. However, this increased integration has also led to greater vulnerabilities to global capital shocks. Indeed, Vietnam’s underdeveloped banking system continues to raise questions about the country’s ability to withstand shocks from abroad. These overleveraged and underperforming state-owned enterprises remains a significant constraint on growth.

<table>
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<th>Table 2: Key economic forecasts (^{(a)})</th>
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<td><strong>Production</strong></td>
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<td>Agriculture</td>
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<td>Services</td>
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<th><strong>Demand</strong></th>
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<tr>
<td>Domestic Final Demand</td>
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<td>Government consumption</td>
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<table>
<thead>
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<th><strong>Real GDP</strong></th>
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| Nominal GDP | 28.1 | 16.3 | 18 | 13 | 17 | 14 |
| GDP Deflator | 20.8 | 10.8 | 11 | 8 | 11 | 7 |
| CPI | 18.1 | 6.8 | 10 | 8 | 10 | 8 |

\(^{(a)}\) Year-on-year growth unless otherwise indicated.
\(^{(b)}\) Percentage point contribution to growth.
\(^{(c)}\) Year-on-year to the December quarter.

Source: GSO and DEPOCEN.
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