MACROECONOMIC BRIEF
QUARTER II 2012
Vietnam’s economic growth was 4.66% in the second quarter of 2012 (year over year). Together with an increase of 4% in the first quarter, the Vietnamese economy has grown by 4.38% during the first six months of 2012, reflecting the ongoing difficulties in global environment and instabilities in the domestic economy. With half the year now complete, it seems unlikely that the Government’s target growth of 6½% is achievable. On the supply side, the agricultural, forestry, and fisheries sector remained stable and service sector grew slowly. Meanwhile, global economic instability continues to affect in the industrial and services sector. On the demand side, ongoing growth in consumption expenditure and to some extent, net exports, has continued to support growth in the domestic economy.

One of the most unusual figures in the second quarter was the unusually low growth in the Consumer Price Index (CPI). While it’s too soon to say, the weak outcome appears to be a short-run response to previous monetary policy tightening rather than a longer-run trend towards permanently lower inflation driven by macroeconomic stability. Looking ahead, the outcome reinforces the feasibility of inflation registering lower than the 10% target for 2012.

While fiscal and monetary policy has generally been tight because of stubbornly high inflation, deteriorating domestic conditions in mid-2012 did necessitate some slight easing. The most prominent policies of the government in recent months involved intervention in the banking system through the easing lending regulations and interest rate cuts. These policies alleviated what would have otherwise been much weaker production in the second quarter. The outlook remains positive, with the expectation of further interest rate cuts, coupled with the impact of recent tax cuts expected to support growth in the coming period.

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OVERVIEW

The first quarter’s economic growth (year over year) in 2012 declined more sharply than in 2011 and the growth rate was only slightly higher than in 2009, during the mists of the global recession. Some elements of aggregate demand growth including consumption, investment, and government spending also slowed (year over year) because of tightening monetary policy from 2011.

Meanwhile, financial institutions with high bad debt rates, low liquidity and the ongoing challenges arising from the world economic environment were the main macroeconomic risks to the Vietnamese economy. In this context, the loosening of monetary policy implemented in the first half of the year with some actions like decreasing policy rates and improving the banking system’s liquidity helped mitigate some of this risk. The outlook for the banking sector is promising with plans to restructure Vietnam’s banking system approved towards the end of the second quarter.

The world economy continues its staggered recovery, notwithstanding the real possibility of a misfiring euro area or US triggering another global recession. In particular, US economic growth in the second quarter was slow and in the euro area, members continue to face difficulties, with Italy becoming the fourth country to receive bailout funding. At the same time, concerns persist about the ability of the Chinese government to stave off a “hard landing” in economic growth. With those changes in three largest economies, the world demand is expected to decrease in the near term, hampering international trade and FDI flow to Vietnam.

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The situation of the economy in first quarter and pessimistic international economic conditions in second quarter show that Vietnam continues to face many challenges both domestically and internationally. However, there is some good news from main macroeconomic variables like real GDP growth, inflation, unemployment rate, the balance of payments and exchange rate.

ECONOMIC GROWTH

The growth rate of the economy in the second quarter had recovered a little bit from the slowdown in the first quarter (Figure 1). Vietnam’s anemic growth rate for the second quarter of 2012, to provide some context, was only slightly higher than the equivalent growth in 2009, when the world economy was in the mists of a global recession (4.66% in 2012 and 4.46% in 2009). The decline in the growth rate was driven by production difficulties in the industry and construction sector. By contrast, growth in the other sectors, including service and the agriculture, forestry, and fisheries, still had relatively good growth compared with those in previous years.
The elements which contributed to aggregate demand also changed significantly, while expenditure from state budget and total investment were reduced, the total retail sales of goods and services and small trade deficit reveals that final consumption and net exports were the key factors promoting growth. The following sections only focus on analyzing the market factors rather than government spending.

**Investment:** Growth in investment declined in the second quarter of 2012, with the level of investment also lower in year-on-year terms (Figure 2). Although investment of the state sector increased, it could not pull up the total social investment because of steady decline in its share. The disbursement of FDI only rose slightly by 1.9% year over year while total investment of FDI sector and domestic private sector continued to shrink in such a difficult economic situation. Registered capital of FDI also fell; according to GSO, the total amount just reached USD 6,384 million, equivalent to just 72.3% of last year’s level.

**Final consumption** (as proxied by total retail sales and consumer services): After declining in the middle of 2011, final consumption recovered and its growth has remained at high levels since the third quarter last year (Figure 3). In 2012, despite of the decrease in the first quarter, consumption ultimately grew by more than 15%, significantly contributing to aggregate demand. However, the consumption index of manufacturing industries, including the intermediate and final goods, indicates continuing reduction in using goods (Figure 4). This trend on

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2Total revenue from retail sales and consumer services is not identical with final consumption. However, it may be a good proxy when quarterly data on final consumption are not available.

3It should be note that FDI disbarment is different from FDI sector’s investment, which including domestic partners’ contribution. The reduction may come from this part.
one hand implies that the consumption of intermediate goods substantially dropped, and on the other hand, emphasizes both the increasingly important role of consumption in supporting aggregate demand.

**Figure 3: Growth rate of consumption index of manufacturing industries**

![Graph showing growth rate of consumption index of manufacturing industries](image)

**Source:** GSO, authors’ calculation  
**Note:** Growth rates are in year-on-year terms.

**Figure 4: Total revenue from retail sales and consumer services**

![Graph showing total revenue from retail sales and consumer services](image)

**Source:** GSO, authors’ calculation  
**Note:** Data was adjusted to the price level of the first quarter of 2007; growth rates are in year-on-year terms.

still the lowest level of trade deficit ($434 millions, account for 1.52% of the total goods import value) in comparison with the same period in recent years at such as 15.7% in 2011, 17.78% in 2010, 26.6% in 2009, 22.56% in 2008 and 28.92% in 2007.

**Figure 5: Net export and its growth rate**

![Graph showing net export and its growth rate](image)

**Source:** GSO, authors’ calculation  
**Note:** The growth rate calculation is based on year over year; data for Q2/ 2012 is preliminary.

Examining elements of the trade balance shows that exports grew at a much faster rate than the growth in imports (**Figure 6**). Despite the dramatic decrease in commodities exports, overall exports increased by 22.2% year over year. On the other hand, the sharp fall of the import value over the year partly reflects the decline in domestic production.

Because inputs for production in the economy are heavily dependent on imports, the small import value is likely to be reflected in softer domestic production, especially in the domestic private sector. The proportion of its import value in total import value of the economy shrank from 55.4% (in 2011) to 48.5% in 2012.
Meanwhile, the FDI sector’s performance reveals optimistic production and exports with its continuing and increasing trade surplus, which was USD 2,168 million in the second quarter of 2012 and equal to almost four times the value in the same period of 2011 (Figure 7).

\[\text{Figure 6: Export and import value in the second quarter of several years}\]

\[\text{Figure 7: Export and import value by economic sectors}\]

\[\text{Source: GSO}\]

**INFLATION**

CPI inflation in the second quarter fell dramatically in response to tighter monetary policy in 2011 (Figure 8). The monthly increase in CPI in April and May of 0.05% and 0.18% respectively were among the lowest increases in recent years. In June, the CPI in June decreased by a further 0.26%, continuing the recent trend of weak outcomes. The result was likely driven by a strong reduction in inventories. Moreover, the price of oil, which had been the key element causing inflation, also went down by approximately VND 3,000 in the last three months until the end of June 2012.

\[\text{Figure 8: Consumer price index in 2011 and the first half of 2012}\]

\[\text{Source: GSO}\]

With the same trend in the first quarter, in the second quarter, CPI of food group maintained its decrease because of the increase in food productions. Similarly, a post and telecommunication service is the one having persistent reduction in CPI since May 2011. Moreover, there was a marked point that changes in CPI of the housing and real estate services and construction materials remained in constant decline, reflecting a persistent slowdown in the real estate market.

**UNEMPLOYMENT**

The unemployment rate in the first six months slightly increased to 2.29% from 2.27% (Figure 9). However, this rate had a decline in the rural area (from 1.71% in 2011 down to 1.65%). Overall, the
The expansion of the unemployment level is mainly caused by a rise in urban unemployment (from 3.6% to 3.62%).

**Figure 9: Unemployment rate**

![Unemployment rate graph](image)

Source: GSO

This trend is partly explained by the increasing difficulties for enterprises in the industry and construction sector.

**ASSET MARKET**

**The securities market declined this quarter**, undoing much of the recovery in the first quarter of 2012 (Figure 10). While the slowdown of the market in the first quarter of 2011 was explained tougher credit conditioned because of tighter fiscal and monetary policy, the second quarter result was much more difficult to explain. The poor outcome is likely the result of a continued gloomy economic outlook, international economic instabilities and ongoing liquidity problems in the banking system.

**Figure 10: Security market indexes**

![Security market indexes graph](image)

**The real estate market continues to be stagnant,** continuing the trend in previous quarters. The state of the market can be reflected by persistent reductions in consumption indexes of some construction material producing industries (Figure 11). The state of the real estate market is likely a reflection of poor housing affordability, tight credit conditions and a lack of alternative investment opportunities.

**Figure 11: Growth rate of consumption indexes in some construction material producing industries**

![Consumption indexes graph](image)

Source: GSO
MACROECONOMIC POLICY AND THINGS TO WATCH

FISCAL POLICY
Total government revenues in this quarter increased while expenditures decreased. This is largely due to improvements in the economy and reasonable spending, but not for visible tightening fiscal policies. Meanwhile, facing difficulties, a bailout package of VND 29 trillion to support enterprises and market, focusing on reducing tax and deferring tax payment, was introduced by the government. This package will partly influence expected revenues from industries and services in non-state sector. In contrast to the bailout package in 2009 concerning only corporate income tax, this package also includes value-added tax. It is aimed to create favorable conditions for enterprises that are operating business in making the best of capital, but not for those temporarily pausing operating. That value-added tax decrease can allow enterprises to reduce production costs in the short term.

The size of this stimulus at only VND 29,000 billion, was far lower than the previous package worth 160,000 billion in 2009, and reflects the government’s need to stave off high inflation and support growth. Additionally, this package mainly focuses on deferring tax, which will not put much pressure on national budget. However, because of such small quantity, growth rate may not be strongly affected.

Public investment: As mentioned above, this quarter underwent declines in social investment resulted from the plunge of non-state sector investment (from VND 117.4 trillion to VND 91.5 trillion) while public sector investment increased remarkably from 64.7 trillion to 84.5 trillion (Figure 12). In both years, social investment of FDI sector was almost unchanged. In the near future, it is possible this trend will continue, with more investment from the state sector necessary in order to promote economic growth.

MONETARY POLICY
Against a background of slowing economic growth, looser monetary policy conditions have been implemented since early 2012.

The major policy decision in this quarter was the change in regulations on ceiling interest rate. Circular No.19/2012TT-NHNN dated 08 June, 2012 which takes effect on 11 June, 2012 prescribe a reduction in the ceiling interest rate for Vietnam-dong capital mobilizations of 9% per year, replacing the rate of 11% effective since 28 May, 2012 and the rate of 12% effective since 11 April, 2012. In addition to these measures, the refinancing rate and the discount rate

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4 According to Decree 13/NQ-CP dated on 10/5/2012
were also reduced steadily since the first quarter (Figure 13).

**Figure 13: Policy rates**

Source: The State Bank of Vietnam

Moreover, monetary policy has been combined with other policies to stabilize the exchange rate and lessen trade deficits by stabilizing the gold market.

Decree 24/2012/ND-CP on gold bar transactions prohibits gold-bar speculation, thereby reducing risks in the economy. Besides, the State Bank of Vietnam posted 993 billion dong net injections in open market operations (OMO) during mid-June after net withdrawals of 713 billion on OMO at the beginning of the same month (Bloomberg, BVSC).

The banking system shows positive signs of recovery, namely, credit growth turned positive and reached 1.76% until July 2012 financing enterprises. Meanwhile, ratio of granted credit to mobilized capital was lower than previous years. Specifically, it was 86% in April 2012, lower than about 100% in 2011, 101% in 2010 and 2009, 95% in 2008 and 90.3% in June, when outstanding loan (year to date) increased to positive base.

Regarding structure of the loans, in 30 April 2012, the credit amount for manufacturing sector grew by 5.19% (followed by growth of 6% for the sector generating, gathering and supplying power and water), becoming the sector with the highest outstanding loan amount. Noticeably, the figure for real estate sector experienced a high growth rate, at 4.83%, while its outstanding loan is about VND 348 trillion, and the ratio of bad debt among loans in this sector is about 50%. Moreover, according to announcement of the State bank of Vietnam in National Assembly meeting, the bad debt ratio in the banking systems is nearly 10% as Vietnam Accounting Standard. In contrast, outstanding loans for the agriculture, forestry and fisheries sector decreased.

**THINGS TO WATCH**

The most problematic matter remains the progress of banking system restructuring and measures addressing the bad debt. Although the liquidity of banks have improved markedly, despite a gloomy real estate and securities market, the risk of substantial default remains very real. Thus, looser monetary policy is further expected in order to enhance liquidity and tackle difficulties of the markets.

Currently, there are some proposals that the government should buy toxic assets from banks, however, this policy and associated funding is still being debated.