WHAT'S NEWS?

- Vietnam’s response was swift and decisive to manage the coronavirus pandemic and flatten the infection curve.
- Leading indicators confirm the pandemic took a heavy toll on Vietnam’s economic activities during the month of April as the result of the country’s restrictive measures under Directive 16.
- Both manufacturing and services activities fell substantially, while retail sales declined by about 10 percent (y/y).
- In April, the value of merchandise exports was approximately the same than a year ago and foreign investors have continued to demonstrate their interest, as over $12 billion have been registered over the first four months of 2020.
- Vietnam looks for an economic rebound after easing the countrywide restrictive measures under Directive 16 on April 23.
RECENT ECONOMIC DEVELOPMENTS

Vietnam is flattening the curve with only two new infected cases over the past two weeks. As of May 5, 2020, 271 people have been infected with the virus of which 221 cases have recovered. No deaths have been recorded.

**Vietnam was hit hard by COVID-19**

After showing some resilience with a GDP growth rate estimated at 3.8 percent in the first quarter of 2020, the economy was hit by the country’s restrictive measures under Directive 16 during the month of April. The index of industrial production (IIP) in April fell 13.3 percent compared to March or 10.5 percent (y/y), which is the biggest decline ever recorded. Retail sales also declined substantially (down 9.6 percent, y/y) due to rising uncertainty and mobility restrictions faced by consumers (even if a shift towards e-commerce was observed). Passenger and cargo transportation decreased 27.5 and 7.2 percent (y/y) respectively.

According to General Statistics Office (GSO), processing and manufacturing industries were most heavily impacted with 1.2 million jobs affected during the first quarter; followed by wholesale and retail, 1.1 million; plus accommodation and catering services, 740,000. Of those affected, 59 percent are temporarily out of work, 28 percent are taking turns to work, and the remaining 13 percent have lost their jobs. Unemployment among workers 15 years and above also reached a 5-year high, reaching 2.22 percent at end of March, up 0.07 percent against the previous quarter. As many as 18,600 companies temporarily suspended business in Q1, up 26 percent year-on-year. The International Labor Organization (ILO) estimates that the pandemic can affect as many as 4.6 to 10.3 million workers by the end of the second quarter.

The monthly headline CPI decreased significantly by 1.6 percent in April, bringing the year-on-year CPI increase to 2.9 percent, down from 4.9 percent in March. 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.

**Vietnam was more resilient on external front**

On the external front, Vietnam’s merchandise exports continued to grow in the first months of 2020 but at a slower pace than during the pre-COVID period, indicating weaker external demand and some disruption of global supply chains as well.
as the temporary ban on rice exports (lifted since then). The value of merchandise exports is estimated to have increased 4.7 percent (y/y) in January-April period compared to the growth of 6.5 percent in the same period of 2019. The export value of the foreign-invested sector – the engine of Vietnam’s exports, grew by only 1.5 percent compared to 4.4 percent in the same period last year. While there are not yet official estimates, the trade service and income balance (other components of the country’s current account) have most certainly significantly deteriorated due to the almost stop in foreign tourist arrivals (down by 98 percent in April 2020 compared to a year earlier and the expected large decline in remittances.

Credit growth (% y/y)

In the first four months of 2020, committed Foreign Direct Investment (FDI) amounted to $12.3 billion, a year-on-year decrease of 15.5 percent. Surprisingly, the value of FDI commitment rebounded in April, up by 81 percent over March 2020 and 62 percent over April 2019.

Vietnam looks for an economic rebound

Credit grow has gradually rebounded in March after sluggish growth in the first two months of 2020. The State Bank of Vietnam (SBV) reported that credit rose by the end of March 1.3 percent year-to-date – equivalent to about 11 percent year-on-year. The SBV provided support through a package of measures in early March designed to allow banks to restructure loans and lower interest rates on borrowers. The SBV also considered liquidity support through credit growth for certain commercial banks that would contribute to more lending to businesses facing liquidity shortages.

Fiscal outturns in the first quarter of 2020 have started to reflect the trends that are expected to materialize over the remainder of the year; declining revenue and higher spending. According to the Ministry of Finance, estimated budget revenue in the first quarter 2020 increased by only 1.8 percent compared to the same period last year. The result reflects, better collection performance in the first two months before the slowdown in economic activity and the implementation of various tax deferrals that came into full effect in April. During the first quarter, total expenditure rose 8.7 percent (y/y), which is about 5 percent higher than the GDP growth rate during this period. This increase is explained by the Government’s willingness to accelerate the implementation of key infrastructure projects.

Fitch Ratings has revised the Outlook on Vietnam to Stable, from Positive, and has affirmed the rating at ‘BB’. The Outlook revision reflects the impact of the escalating COVID-19 pandemic on Vietnam’s economy through its tourism and export sectors, and weakening domestic demand. The Outlook has confirmed Vietnam’s strong medium-term growth prospects based on its record of macroeconomic stability, low government debt levels and resilient external sector, including relatively large foreign-exchange reserves.