

Insights: Quarter 3, 2022

Vietnam Economic Update Report

This Issue:

Vietnam's Economic Performance in Q3 2022

Sustainability: A vital part of FTA implementation

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Vietnam's GDP grew at 13.67% (YoY) in the third quarter of 2022, largely helped by a rebound in the manufacturing sector and a low base effect.

On September 29, Vietnam's Statistics Office (GSO) released the GDP growth for Q3, 2022, recording an impressive GDP growth of 13.67%, a significant rise compared to the 7.72% in the second quarter and 5.05% of the first quarter. The total growth for the January–September period lands at 8.82%, the highest nine-month growth recorded in the past 12 years.

Business activity in the third quarter has witnessed a strong growth, particularly when comparing with the same period 2021 during which several parts of Vietnam were under lockdown. The figure sets the economy well on the path to outperform the official target of around 7% for the year. Despite the positive outlook, Vietnam, similar to other central banks in Asia, is under pressure to tighten policies as a reaction to the rising interest rates in the US. The country's current low inflation is unlikely to remain for much longer.

Ministries, sectors and localities have actively been implementing the government's programme for economic recovery and socio-economic growth. Many factors have contributed to the country's GDP expansion in the quarter. Exports to the US has surged and private consumption, which accounts for almost 40% of the GDP growth rate in Q3, grew by 10.08%, the first quarterly growth above 10% since 2009. In addition, the industry and construction sector grew by 12.91%, service sector rose by 18.86%, and agriculture-forestry-fishery sector increased by 3.24%

Exports and imports retained high growth rates

Vietnam's import-export value in the first nine months of 2022 hit 558.5 billion USD, a 15.1% year-on-year increase. Imports grew by 13% (YoY) and reached 267 billion USD for the period while exports grew 17.3%, landing at a value of 282 billion USD. Vietnam registered a total trade surplus of 6.52 billion USD, reversing last year's trade deficit of 3.44 billion USD.

Vietnam's import-export (Jan-July 2022)



Source: General Statistics Office of Vietnam

The US was Vietnam's biggest importer during these first 9 months, with a turnover of 86.3 billion USD. Meanwhile, China was Vietnam's largest exporter, selling 91.6 billion USD worth of products.

Sustainability: a vital part of FTAs Implementation

Following the enactment of EVFTA and UKVFTA, Vietnam has made progressive strides in improving its economic sectors. However, much is to yet be done to fully capture the potential that these trade agreements bring. This quarter sees significant events that show Vietnam's dedication to realizing this potential.



Greening port infrastructure

To align with the global maritime industry's focus on reducing the impact of greenhouse gas emissions, Vietnam Maritime Administration (VMA) has issued a roadmap to develop green ports in Vietnam. A number of criteria for green ports has been set and, starting 2023, will be applied at several domestic ports. This set would cover 6 main areas: perception, resources usage, environmental quality management, energy use, information technology application, emission reduction, and response to climate change and rising sea levels. During 2023-2025, relevant regulations would be adjusted and supplemented based on the criteria. National technical standards and criteria for green port development will be issued during 2025-2030.

Improving logistics industry

Vietnam's logistics industry has experienced an average annual growth of 13-15% over the last two years. However, the Vietnam's logistics industry is failing to compete with foreign players.

In the "Solutions to promote the logistics industry to take advantage of opportunities from EVFTA" seminar on September 23th, Vietnamese logistics industry leaders discussed the improvements that local logistics enterprises need to make in order

to benefit from current trade opportunities between Vietnam and EU.

Vietnam's local logistics enterprises are mainly small- and medium-sized, with low professionalism and insufficient facilities, leading to higher logistics services costs. In order to be competitive with foreign players, Vietnam's logistics industry must work on improving its operation to meet the EU and UK's strict requirements. Currently, logistics costs take up a large proportion of the total cost of products of Vietnamese businesses. Strategic allocation of logistics centers at major ports is a way to raise Vietnam's logistics capacity and capability, a suggestion by Nhut Le, general director of Danang Rubber JSC. Representatives of the Ministry of Industry and Trade stated that the government is also putting forward plans to develop and improve the competitiveness of Vietnam's logistics services, including its sustainable standards, by 2025.



Attracting FDI in green sectors

UK is investing significantly into Vietnam, with 25 new projects announced only in August, 2022. The majority of the projects are in manufacturing and processing, real estate business, and mining.

To utilize the full potential of the UKVFTA, Vietnam has been continuously adjusting its FDI policies in order to attract investments. Prioritized sectors include green finance, renewable energy, high-tech manufacturing, digital transformation, healthcare, education, and climate change adaptation – those that are the strengths of UK.

While there is much left to fulfill on Vietnam's to-do list, the country has made great efforts to improve its economic sectors and attain the advantages that the trade deals have to offer.

Vietnam central bank acts to tighten the VND liquidity



The State Bank of Vietnam (SBV) has net withdrawn 57.6 trillion through open market operation (OMO) and foreign currency selling channels in order to sustain the liquidity of the banking system and indirectly impact the interbank interest rates. Consequently, interbank interest rate for overnight terms increased by 40 basis points to 4.9%, for one-week to 5.2%, and for one-month to 5.6%. On September 22nd, the SBV also announced that it would raise its policy rates by 100 basis points. Last time the SBV increased its policy rates was nearly 11 years ago. The adjustment brought the rates to the same level as in March 2020, but are still 50 basis points lower than those before the COVID-19 pandemic. The announcement was made after the US Federal Reserve raised interest rates in its September meeting. Other central banks has followed suit and also conducted similar actions.

Analysts from security company SSI believed that although the rate increase was expected, the increase, in comparison to the SBV's previous decision and other regional countries, is relatively large. The rate increase aims to maintain a stable exchange rate, rather than controlling inflation as the country's consumer price index remains under control. Experts believe there it is possible that policy rates could be increased again in order for inflation and interest rates to meet the pre-pandemic level.



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