

Macro Note

Vietnam: Economic Growth Slows To 6.8% In Second Quarter

Friday, 29 June 2018

Manop Udomkerdmongkol
 Economist
Manop.Udo@uob.co.th

- Vietnam's economy expanded 6.8% in 2Q18 and 7.1% in 1H18 in line with market consensus.
- The economy is expected to grow 6.8% in 2018 on the back of increased demand for manufacturing exports, rising domestic consumption and a continued rise in FDI inflows.
- We expect the refinancing rate to stay unchanged at 6.25% for 2018.

In line with market consensus, Vietnam's economy grew 6.8% in 2Q18 and 7.1% in 1H18. The economic growth in 1H18 was mainly driven by industry, construction and services, particularly wholesale and retail, transport, banking and finance, education and healthcare. For the first half of 2018, industry and construction expanded 9.07% and services rose 6.9%. These are higher than the previous growth rates of 5.81% and 6.85%, respectively. Manufacturing maintained solid growth at 13%, which is higher than the 10.5% growth in the same period last year. Moreover, agriculture grew 3.9% compared with 2.7% in the first half of 2017.

Despite a robust rate of economic growth in 1H18, our 2018 economic growth projection of 6.8% remains unchanged due to the high base effects which will exert a statistical dampener on growth, particularly in 2H18. High transport and energy infrastructure investments remain key growth drivers. Industrial production will be boosted by continued opening of new multinational enterprises in labor-intensive, export-oriented manufacturing and processing industries. In the first four months of 2018, foreign investors contributed capital and bought shares worth USD8.1bn. Of this, the manufacturing and processing sector attracted the largest amount of FDI, with total registered capital of USD4.5bn, accounting for 55.6% of the total investment. Exports and tourism will benefit from a broad-based global recovery. Private consumption should be supported by rising household income and an expansion in private credit. Nevertheless, the economy will still be facing economic risks, especially an increase in global protectionism. If the trade tensions between Vietnam's two largest trading partners – the US and China – were to worsen, it would lead to negative spillover effects on Vietnam's growth prospects.

In terms of monetary policy, the State Bank of Vietnam (SBV) is expected to keep refinancing rate on hold until at least the end of this year. At the current benchmark rate, the monetary policy stance remains conducive to the continuation of economic expansion. The strong growth eases pressure on the government and the SBV to add more stimuli so as to achieve annual growth target of 6.7% under the 2018 socio-economic development plan. As a consequence, another policy rate cut may not be on the cards at the central bank even as other Asian central banks have started to pursue monetary policy normalization by raising policy rates gradually.

Table 1: Vietnam GDP Growth (Constant 2010 Prices)

ytd y/y%	2016	2017	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Real GDP	6.2	6.8	5.1	5.7	6.4	6.8	7.4	7.1
Agriculture/ Forestry/ Fishery	1.4	2.9	2.0	2.7	2.8	2.9	4.1	3.9
Industry/ Construction	7.6	8.0	4.2	5.8	7.2	8.0	9.7	9.1
Services	7.0	7.4	6.5	6.9	7.3	7.4	6.7	6.9

Source: Bloomberg, UOB Global Economics & Markets Research

Recent Publications

[RBNZ Adopts Slight "Dovish" Tone](#), 28 June 2018

[SGS: 20Y Auction Saw Good Demand And Remains Cheap On Relative Value](#), 27 June 2018

[FX Strategy: Rally In USD/CNY Is Too Fast, Too Furious](#), 27 June 2018

[Singapore May IP: Are We Selling What We Are Making?](#), 26 June 2018

[Singapore: Inflation A Notch Higher, And May Continue If Oil Prices Trend Higher](#), 25 June 2018

[Commodities Strategy: OPEC Compromise Reinforces Range Trading In Brent Crude Oil](#), 25 June 2018

[China: PBoC Makes Another Targeted Reserve Requirement Ratio Cut](#), 25 June 2018

[Taiwan: CBC Likely To Remain On Hold Throughout 2018](#), 22 June 2018

[BoE Tilts Towards August Rate Rise](#), 22 June 2018

[Macro+Rates Strategy: China - Signaling For Another Reserve Requirement Ratio Cut?](#), 21 June 2018



Scan the QR Code for a list of all our reports

Disclaimer

This publication is strictly for informational purposes only and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose, and is also not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to its laws or regulations. This publication is not an offer, recommendation, solicitation or advice to buy or sell any investment product/securities/instruments. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. Please consult your own professional advisors about the suitability of any investment product/securities/ instruments for your investment objectives, financial situation and particular needs.

The information contained in this publication is based on certain assumptions and analysis of publicly available information and reflects prevailing conditions as of the date of the publication. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The views expressed within this publication are solely those of the author's and are independent of the actual trading positions of United Overseas Bank Limited, its subsidiaries, affiliates, directors, officers and employees ("UOB Group"). Views expressed reflect the author's judgment as at the date of this publication and are subject to change.

UOB Group may have positions or other interests in, and may effect transactions in the securities/instruments mentioned in the publication. UOB Group may have also issued other reports, publications or documents expressing views which are different from those stated in this publication. Although every reasonable care has been taken to ensure the accuracy, completeness and objectivity of the information contained in this publication, UOB Group makes no representation or warranty, whether express or implied, as to its accuracy, completeness and objectivity and accept no responsibility or liability relating to any losses or damages howsoever suffered by any person arising from any reliance on the views expressed or information in this publication.