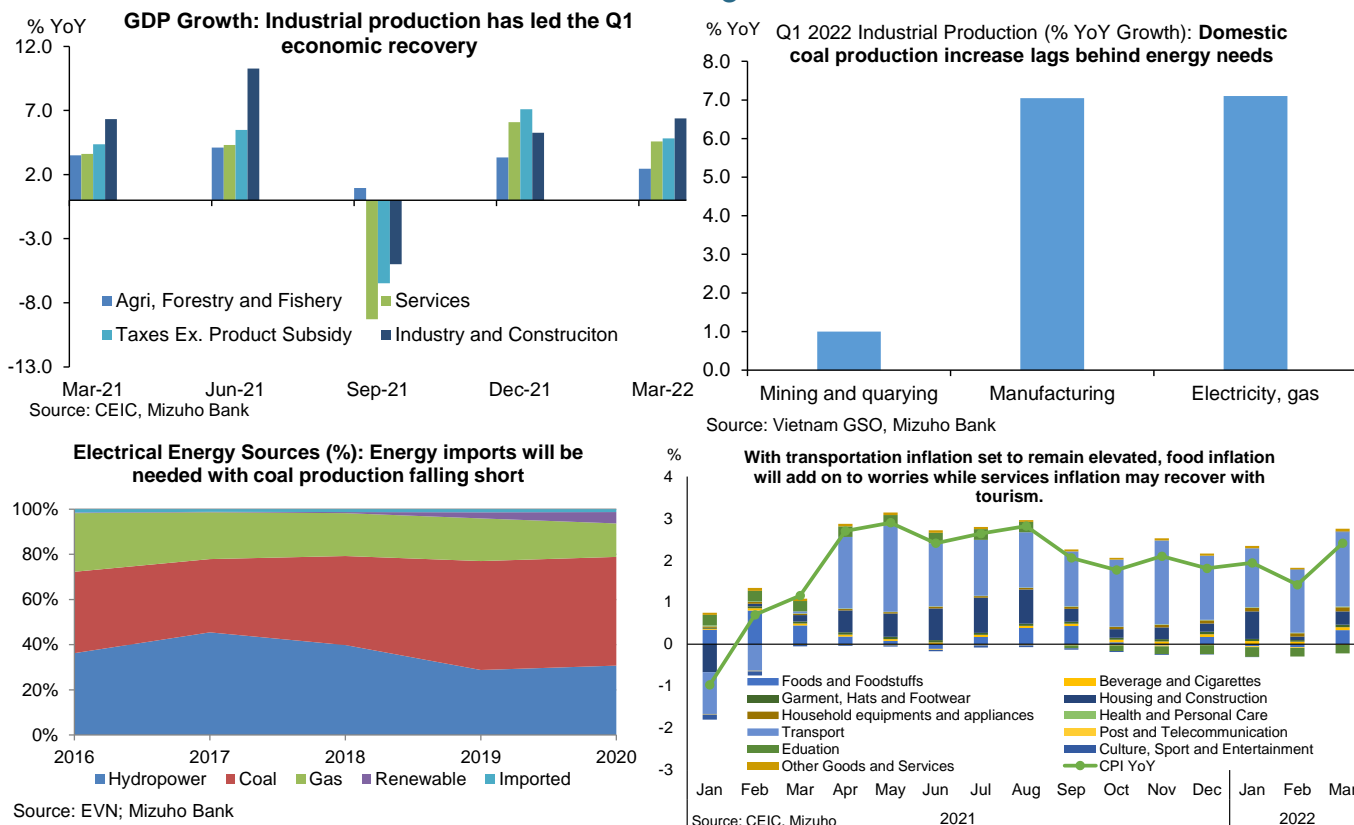


Vietnam: Inconvenient Coal-Powered Engines of Growth



- Vietnam's GDP grew 5.0% YoY in Q1 2022 while headline inflation in March posted 2.4%. First and foremost, the economic activity recovery is encouraging on two fronts: i) the level of economic activity sustaining at higher levels, ii) contribution from both manufacturing and services sectors implying a more even growth trajectory which affirms high valued jobs from the former while the latter confers broader labour market pickup.
- The question going forward is the **sustainability of growth given energy constraints**. A peak at industrial production tells of **manufacturing production outpacing domestic resource mining**. With thermal coal power accounting for near 44% of power generation in February, the **domestic coal shortage comes at an inconvenient juncture where import availability is scarce**.
- As we had mentioned in our earlier note **12% of coal is imported from Russia, delayed and diminished shipments** are therefore within certainty in the months ahead. (See [Mizuho Flash: Vietnam Inflation, 28 Feb](#)) While the government endeavours to diversify with Australian and South African coal, the **implementation lags** between diplomatic progress, commercial negotiations and delivery **will see inevitable gaps in this substitution process**.
- In addition, coal being in high global demand will mean that such commendable efforts may still need to give way to nationwide pleas of electricity saving drives and **occasional power outages ahead**.
- Growth though **is not expected to stall despite the coal engine spluttering**. The disruptions would **necessitate a pragmatic prioritisation of the industrial park complexes** to upkeep their reputation of reliability for future FDI inflows. However, the **trade-off turns increasingly sharper** as retail sales in tourism services and accommodation being 20% below pre-pandemic levels imply greater

competition for energy as tourism restarts.

- The **energy shortage will entail sharper cost and chip away at industrial margins and household budgets**. As such, growth may be dragged to a slower pace as cost and inflation erodes real returns.
- Turning to price pressures in the economy, **2.4% YoY headline inflation continues to be no comfort to the SBV and the fiscal authorities**. With transport inflation remaining elevated and projected to transmit and surge higher in the coming months, the **authorities have pulled out another pre-emptive tax reduction** via lowering environment protection tax on fuels and lubricant (effective from April till end-2022) on top of the VAT cut we mentioned in our February note.
- With global food prices continuing to escalate, supply side inflation will continue to feature in the months ahead. In addition, the **resumption of tourism activities will boost demand led price pressures in areas such as entertainment and restaurant services in Q2 2022**.
- All in, with an entrenching growth alongside relatively resilient VND, we expect the SBV to manoeuvre through a bumpy growth path in Q2 to allow healthy green shoots of demand pull inflation before normalising policy in H2 2022.

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