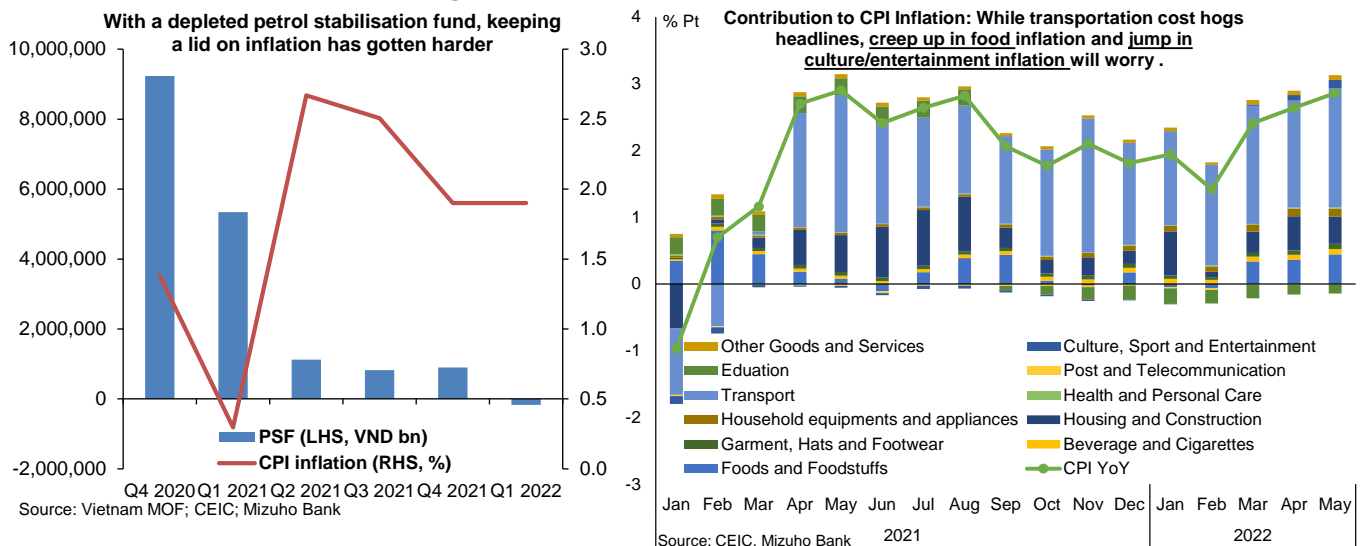


Vietnam Inflation: Running Out and Up?



- **Vietnam's CPI grew 2.9% YoY in May 2022, edging up from 2.6% in April.** In general, we are seeing price pressures from what we had flagged out earlier in our April update: i) transportation cost continue to rise ii) food inflation on the back of both resumption of services (eating out) and imported inflation and iii) services inflation in entertainment categories as tourism demand picks up.
- First, given the trajectory of elevated Brent crude prices, higher transportation cost is certainly expected. What's worse, is that the updated status of the petrol stabilisation fund shows depletion of these monies and as such, underlies the actions of authorities to allow **the multiple upward revisions in their petrol and diesel price ceilings** in recent months.
- We continue to expect authorities to pull out various stops to stem the ascendancy of these costs. This has come from the reduction in **VAT** to nimbler measures such as lowering **environmental taxes** on petrol and diesel and **highway toll fees**. An introduction of new fund to support the petrol stabilisation fund or a straight top-up is also not ruled out given the former's precedence in late 2021.
- On balance, transport inflation looks to remain elevated as **these administrative measures work as a speed bumpers to slow ascendancy rather than straight up retardation.**
- Second, **food inflation** continued to **tick up** in May with 1.3% YoY from 1.1% in April. This came on the back of more eating out from both families and tourists, as well as higher raw food costs such as poultry stemming from costly upstream inputs (e.g. fertilisers). While **the uptick is small, their considerable weight** of 33.5% of the CPI basket imply that food-related prices **will keep headline inflation elevated** in the months ahead.
- Third, demand side pressures look to have set in on **services** as the "culture, sports and entertainment" category printed a 2.8% YoY in May, a **1%-pt jump up** from 1.8% YoY in April. The jump illustrates the impact on a firmer domestic growth alongside resumption of tourist inflows, though spillovers from Southeast Asian Games hosted in Hanoi may also have played a part.
- A finer underlying point is that domestic growth and tourism inflows point to higher purchasing power and in turn allow businesses to pass through their higher cost which they had been unable to previously when the economy was in the doldrums and tourists with greater propensities to spend were absent. All in, **inflation will be climbing up though it will be unwise to count the authorities out.**

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