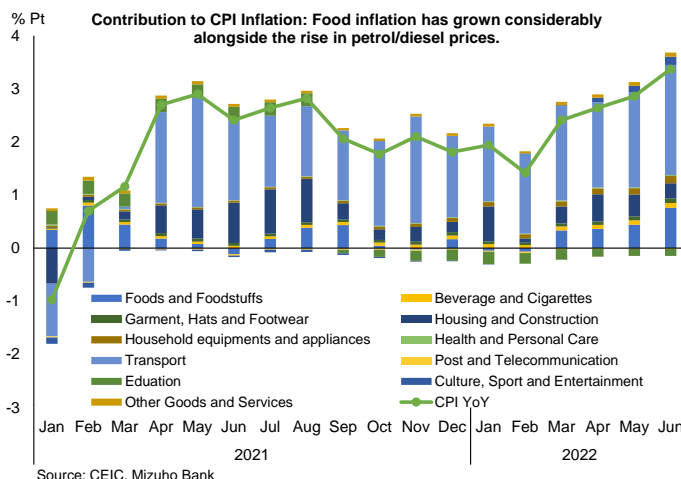
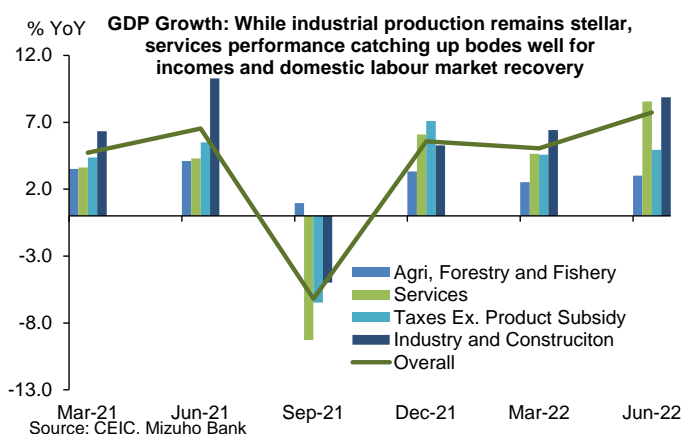


Vietnam: Stellar Growth, Rising Inflation



- Vietnam's **GDP Q2 GDP growth took a big step up at 7.7% YoY**, from 5% in Q1 while **June's headline inflation** unfortunately following suit to **increase to 3.4%** from 2.9% in May on the back of rising fuel and food prices.
- With GDP levels now ~10% above end-2019 levels, economic recovery is conclusively complete as authorities sets the stage for post-pandemic growth. Investment outlook remains favourable as **FDI disbursements remain higher on a year ago basis**, highlighting background global supply chain shifts even amid broader growth slowdown concerns.
- While manufacturing output continues to underpin the strong growth, catch-up growth in **services at 8.6% YoY will generate significant multipliers and employment gains** which provides firmer foundation for growth ahead.
- However, inflation has been inevitably pull higher as ceilings on petrol/diesel prices have been lifted in recent months alongside the strong demand side recovery as incomes recover. Moreover, **inflation has also broadened further** with food inflation now above pre-Covid trends (2017-19).
- To be sure, the 4% headline inflation upper bound is not breached. But continued upward creep will test the 4% ceiling in Q4; especially given that **services recovery may induce greater cost pass-through**. Nascent signs of this are already evident from core inflation edging up to 2% from 1.6%.
- The SBV has also attempted to **calm markets** by publicly revealing their interventions thus far of selling foreign currencies to meet the import needs of the economy and bring about macrostability. This will also assist to mitigate excessive VND depreciation and dampen imported inflation.
- Looking ahead, given the growth trajectory thus far, the **SBV has sufficient room to hike policy rates in Q3 in the event of heightened inflationary pressures** and also to stem capital outflow risks. The trade-offs of delayed normalisation triggering a depletion in reserves and ensuing downward spiralling confidence is one which the SBV will look to avoid. Nonetheless, we acknowledge that the relative outperformance of the VND thus far allows a longer runway for monetary policy normalisation.

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