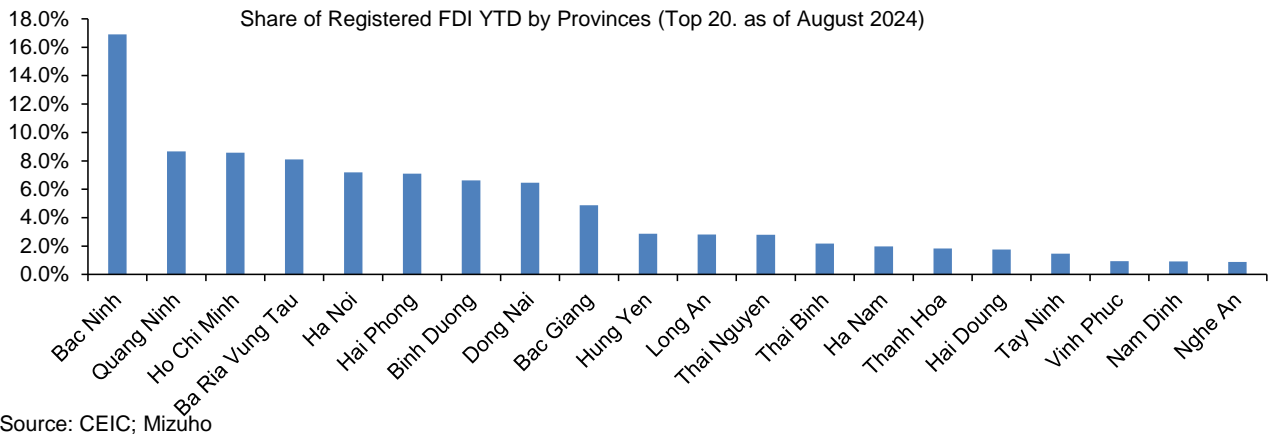
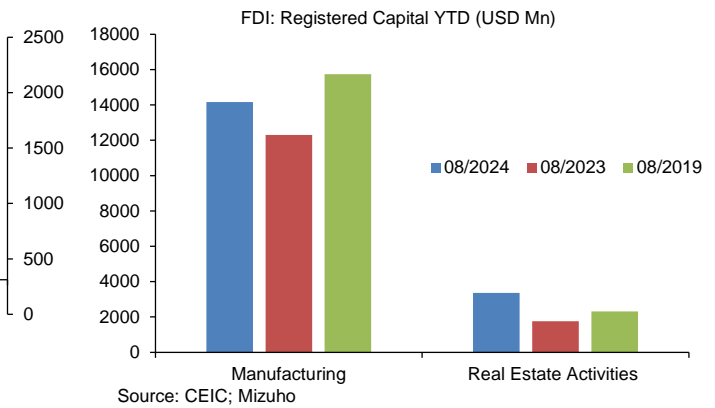
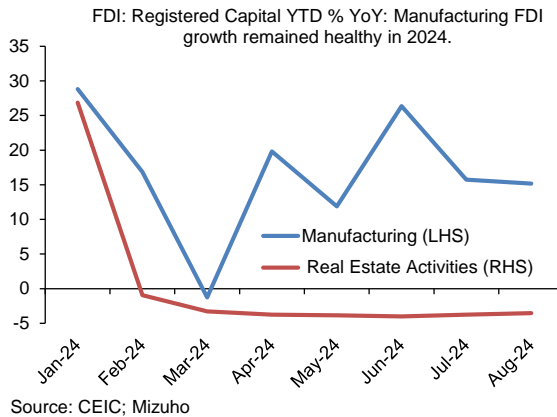
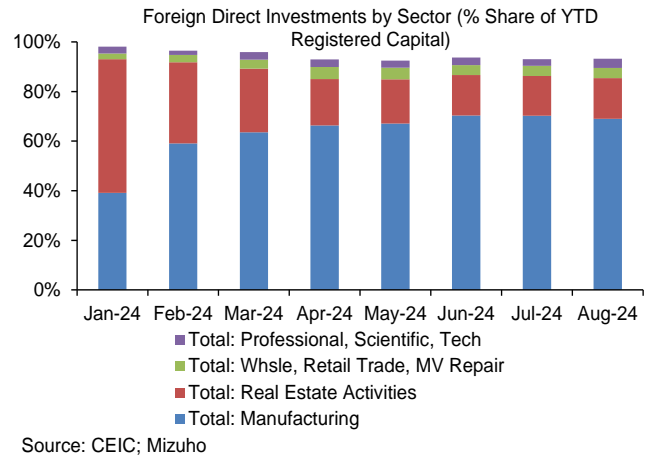
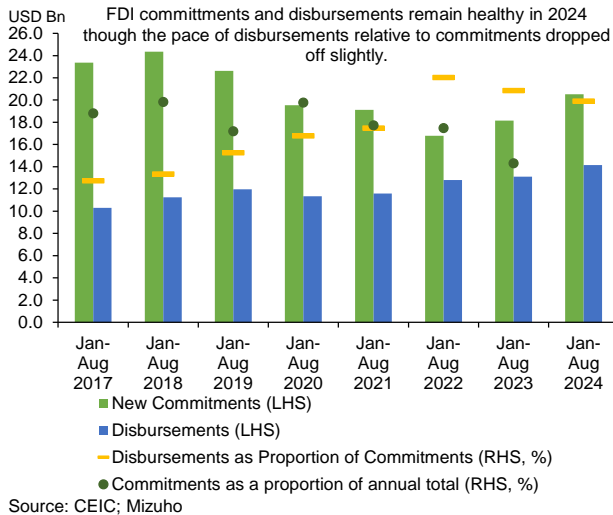


Mizuho Chart Speak: Vietnam

Economics & Strategy | Asia ex-Japan

18 September 2024 | Tan Boon Heng | Market Economist

Vietnam: Manufacturing FDI Unperturbed, Output Typhoon Hit



- In Vietnam, FDI commitments YTD (till August) has grown 13.1% YoY while disbursements rose 8.0% YoY. On aggregate, it appears that Vietnam's attractiveness to FDI inflow has not been structurally altered by earlier episodes such as electricity shortages or on-going corruption drive. Admittedly, these

commitments still fall shy of pre-Covid levels though elevated disbursement ratios continue to suggest that on the ground investments is taking on a more robust pace.

- From a **sectoral perspective**, registered FDI capital continue to be driven by the manufacturing sector with two-thirds share which is similar to pre-Covid share and growth on a year ago YTD basis also remains healthy at 15.2%. Nonetheless, investment commitment remains below levels seen during pre-Covid times.
- This is perhaps unsurprising given renewed threats of US tariffs on Chinese goods and intensifying concerns over Vietnam's role to circumvent these restrictions.
- Real estate activities take up about 15% share of registered FDI while registering an outsized 91% YoY YTD growth mainly due to low base last year as activity slumped.
- From **geographical** perspective, Bac Ninh has ranked first in terms of FDI commitments which is not surprising given their concentration of industrial parks and presence of large MNCs such as the likes of Samsung, Canon, Foxconn and Microsoft.
- The manufacturing focus is also evident in second place Quang Ninh with additional FDI injections by the likes of Foxconn and new projects by Chinese solar panel manufacturers. Ba Ria-Vung Tau also saw a strong surge in FDI on investments on chemicals manufacturing by a large Korean firm.
- On balance, these **investments spanning a broad range of manufacturing sub-sectors augurs well for continued growth for Vietnam's industrial base and export potential.**
- In the **near term**, Typhoon Yagi has likely dented industrial output in September as it made landfall in Quang Ninh and Hai Phong.
- While the agricultural sector has borne the brunt of the economic impact, the industrial losses is also non-trivial given damage to factories and disruption to electricity supply impairing operation capacity. Furthermore, damage to infrastructure such as highways and ports also imply supply chain delays.
- Aside from rescue efforts, the authorities have rolled out excise tax reduction, corporate income tax deduction on disaster related expenses for those affected by floods and the financial relief is welcomed.
- That said, the restoration of capacity especially in the agricultural sector will take much longer given the labour intensive nature and substantial destruction of livestock.
- All in, **we retain our forecast for 2024 GDP to remain in the 6.0-6.5% range with a bias to the upper end of the range.** Meanwhile, the SBV will continue to urge banks to provide targeted support in terms of reducing rates and deferring deadlines to affected businesses rather than employ economy wide direct monetary policy easing via policy rate cuts.

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