

Long Nguyen

Analyst

Long.nguyenphi@mbs.com.vn

Tuan Hoang

Head of Macro

Tuan.hoangcong@mbs.com.vn

Vietnam Outlook

- **GDP growth in 2nd quarter of Vietnam is estimated at 0.36% yoy, GDP in 6 month rises 1.81%, lowest in 10 years as the global economy faces severe recession due to Covid-19**
- **According to data from GSO, export of goods in Q2/2020 declines 9% yoy to USD58 bn, in 6M2020, export falls 1.1% yoy to USD121.2bn**
- **Industrial production in June shows positive signs of recovery with a 7% increase yoy while manufacturing sector expands 10.3% yoy**
- **Retail sales of goods and services in June rises 5.3% yoy, estimated at VND431 tn, fallen 0.8% yoy in 6M.**
- **FDI inward into Vietnam YTD declines 15% to USD15.7 bn, affected by the weakening trend in global investment due to the pandemic**
- **State revenue declines 8.1% yoy in 6M2020 while spending surges 10.4%**
- **Inflation in June increases 0.66% MoM and 3.17% yoy, main causes are the surge in food and energy prices**
- **The VND/USD exchange rate remains stable in June and continues its downward adjustment after the surge in March**

Economic activity

Growth

GDP growth in 2nd quarter of Vietnam is estimated at 0.36% yoy, GDP in 6 month rises 1.81%, lowest in 10 years as the global economy faces severe recession due to Covid-19. Main economic activities have weakened: export falls 1.1% yoy, retail sales decreases 0.8%, industrial value added rises merely 2.7% (compared to 9.1% in 2019), total registered FDI tumbles 15% yoy.

However, we expect the slump in economic activities has bottomed in Q2, economic growth will recover from Q3/2020 driven by policies by the government. SBV has loosened its monetary policy through lowering policy rates and deposit rate ceiling, nevertheless, high inflationary pressures will prevent the SBV to implement massive loosening policies. Fiscal policies, instead of monetary policy, will be the critical tool to stimulate economic growth. A number of infrastructure and public investment projects has been approved, including investment in construction of regional highways, north-south highway, Long Thanh airport, upgrades of Noi bai and Tan Son Nhat airport, etc, is an important driver of growth. Besides, policies supporting consumption, businesses and employees are implemented such as support for car purchases, lower corporate income tax, provision of preferable loans and postponement of social contribution. GDP growth in 2021 is projected to recover to average 7.1% in which fiscal policies and government consumption will be the main growth driver of the economy.

Trade activity

According to data from GSO, export of goods in Q2/2020 declines 9% yoy to USD58 bn, in 6M2020, export falls 1.1% yoy to USD121.2 bn. Import of goods in Q2 decreases 9.1% yoy to USD 57.7 bn, and declines 3% yoy in 6M to USD117.2 bn. As a result, in the first half of 2020, the trade surplus rises to USD4 bn, higher than the USD1.7 bn in 6M2019.

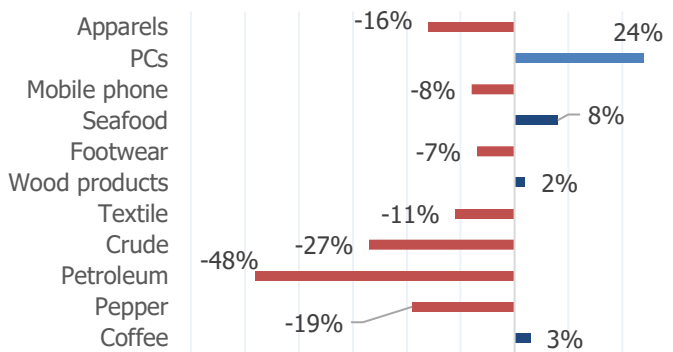
The corona pandemic has negative impacts on Vietnam's trade performance as major export markets implement quarantine measures to control the spread, leading to weak external demand. Price of commodities also slumps which leads to the fall in export value of many commodities such as crude oil, gas, rubber. However, export of certain products still have positive growth in the first six months of 2020: rice export (+19.3% yoy), paper (+33.6%), metals, precious metal (+39.3%), electronics, computers (+24.2%), machinery and equipment (+25.2%), furniture (+43.5%), toys (+65%).

Data on import volume shows a brighter picture on domestic demand when the as the import volume of a number of products experiences positive growth in the first half of the year compared to the same period last year. Import volume of crude oil surges 46.7%, coal (+52.3%), rubber (+22.2%), paper (+9.4%). Infrastructure projects approved by the National Assembly recently also helps import of basic commodities improve in the later half of the year.

As major trade partners of Vietnam reopen their economies in the second half of 2020, consumption demand will slowly recover, Vietnam's export will see positive grow. However, high unemployment rate and diminishing income will dampen consumption demand and investment in advanced economies, export orders will not recover to pre-Covid level immediately. On the other hand, rising US-China trade tension lowers investors and business

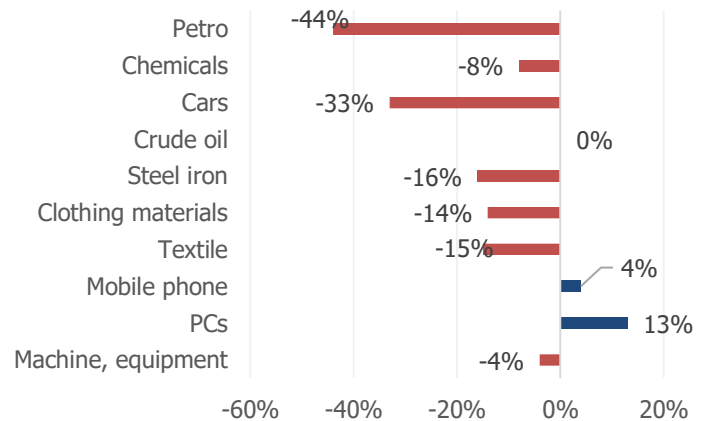
sentiment, prevent the recovery of trade and manufacturing activity. Large trade surplus continues to be positive factor supporting Vietnam's GDP growth this year.

Weak export performance in May (% change yoy)



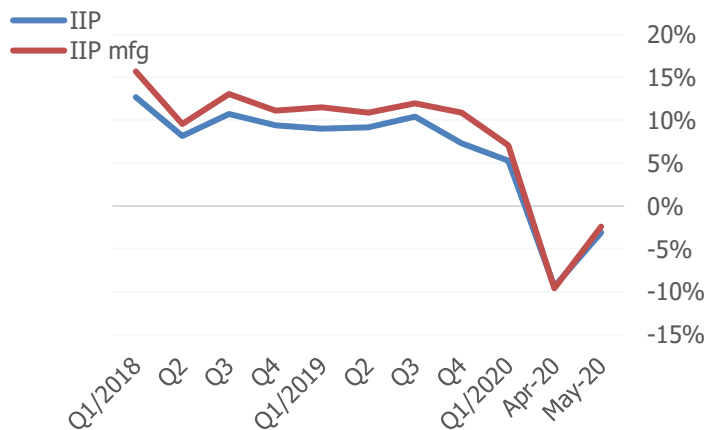
Source: GSO.

Change in import in May 2020 (%yoy)



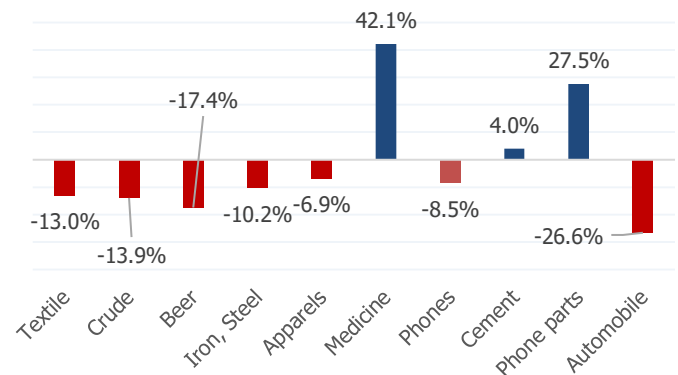
Source: GSO.

Industrial production growth (%yoy)



Source: GSO.

Industrial production 6M2020 (% change yoy)



Source: GSO.

Industrial production

Industrial production in June shows positive signs of recovery with a 7% increase yoy. Manufacturing sector expands 10.3% yoy, with major expansion in medicine production (+36.2% yoy), production of coked and refined petroleum (+38%), manufacturing of transport (+27.7%), textile (+9.1%), electronics and computers (+21.7%), clothing (+5%), cellphone

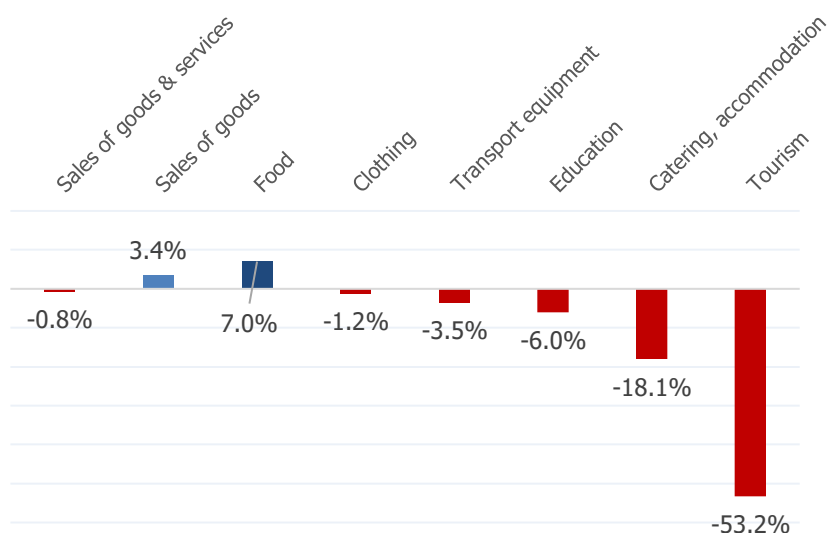
parts and accessories (+90.6%). Besides, infrastructure investments help increase the production output of selected metal and building materials.

PMI manufacturing of Vietnam rebounds to 51.1 in June from 42.7 in May, the first time the index stays above the 50 - expansion level in 5 months. Industrial production experiences positive growth thanks to the recovery of domestic demand, meanwhile, major export markets have also reopened which help improve new orders. Surveyed firms reported optimism on the recovery of the economy, purchase managers show positive sentiment on the growth of new orders and business outlook in the coming year.

Consumption

Retail sales of goods and services in June rises 5.3% yoy, estimated at VND431 tn, fallen 0.8% yoy in 6M. Retail sales of goods in 6M increases 3.4% yoy to VND1.9 tn, of which sales of some goods experience positive growth such as food (+7%), household appliances (+5%). Revenue of accommodation and catering in 6M2020 falls 18.1% yoy to VND235 tn. Revenue of tourism decreases 53.2% yoy to VND10.3 tn as the number of international tourists tumbles 56% due to Covid-19.

Revenue growth of selected retail sales of goods and services in 6M2020



Source: GSO.

Investment

FDI inward into Vietnam YTD declines 15% to USD15.7 bn, affected by the weakening trend in global investment due to the pandemic. The number of projects approved is 1,418 projects, a decline of 17.7% yoy with total registered capital of USD8.5 bn (-13.8% yoy). Disbursed FDI in

6M is USD8.7 bn, falling 4.9 yoy. Accounted for 51% of total registered FDI is the manufacturing sector which attracts USD8 bn, a decline of 40% yoy due to weak demand and barrier in global investment activity due to Covid. Meanwhile, the production and distribution of electricity, gas and water is a bright spot in FDI inflow with total registered capital of 3.95 bn USD, an increase of 7.4 times yoy due to the USD4 bn LNG project in Bac Lieu. The renewed escalation of trade tension between US and China and the recovery of consumption demand after major economies reopen will be contributing factors to the increased demand for investment into Vietnam of international exporters and investors. FDI inflow into Vietnam will recover in late 2020 and back on the path of growth from 2021.

Policy

State revenue declines 8.1% yoy in 6M2020 while spending surges 10.4%

The government will focus on fiscal policies to support the economy. Congress has approved 30% tax cut for corporates with income in 2020 below VND200 bn. The tax cut will put a strain on state budget with an estimated decrease of VND23 tn in 2020. Meanwhile, government also increase spending to stimulate demand through infrastructure construction projects. In 6M2020, investment spending amounts to VND140 tn, a rise of 25.2% yoy.

Total revenue in 6M2020 reaches VND607 tn, completing 40% of 2020's plan, decline 8.1% yoy as many revenue streams are hit by the pandemic. Domestic revenue falls 4% yoy to VND503.8 tn, from crude oil declines 22.6%, from trade decreases 24% to 82.8 tn. Total spending in 1H is VND 676 tn, increases 10.4% yoy, of which regular spending rises 7.7% yoy to VND 475 tn.

State Budget (up to 15/06/2020)

Source: Ministry of Finance, GSO.

VND billion	2020 Estimates	6M2020	% Target	6M2020 vs 6M 2019
Revenue	1,512,300	607,100	40.1%	-8.1%
Domestic	1,264,100	503,800	39.9%	-4.0%
Oil and gas	35,200	20,200	57.5%	-22.6%
Exports-imports	208,000	82,800	39.8%	-24.0%
Official aid	5,000			
Expense	1,747,100	676,200	38.7%	+10.4%
Investment	470,600	140,300	29.8%	+25.2%
Current expenditure	1,056,485	475,200	45.0%	+7.7%
Interest payment	118,192	56,400	47.8%	+0.9%
Principal repayment	245,031			
Budget Balance	-234,800			
Budget deficit	3.44%			
Budget loan	488,921			

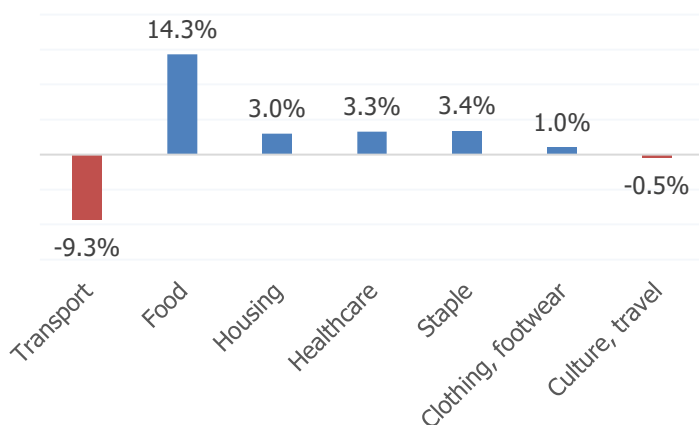
Inflation

Inflation in June rises 0.66% MoM and 3.17% yoy

Inflation in June increases 0.66% MoM and 3.17% yoy, main causes are the surge in food and energy prices. Pork price increases 3.4 MoM other processed meat rises 2%, meanwhile, the two upward adjustments of gas price +14.2%, transport group +6.1%. The oil price in global market rebounds sharply after the plunge in April due to weak demand and oversupply due to Covid.

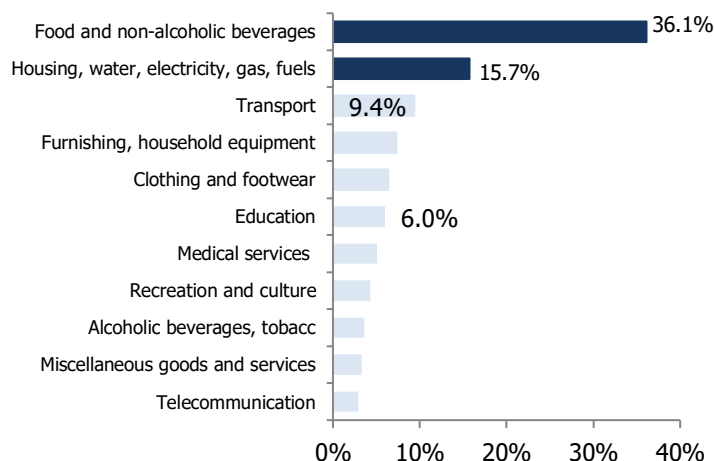
Inflation has returned after several months of deflation due to demand for goods and services tumbled as shops are closed for 3 weeks nationwide. Stimulus measures by the government and corporates will help consumption demand improve in the coming months, however, prices will increase with limitation as consumer's income has decreased due to negative impact of Covid on economic growth.

Price of selected products/groups in 6M (%yoy)



Source: GSO.

Share of selected sectors (% CPI)



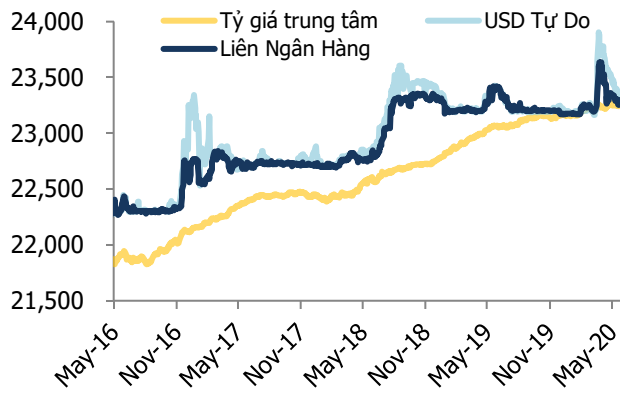
Source: IMF.

Exchange rate

The VND/USD exchange rate remains stable in June and continues its downward adjustment after the surge in March

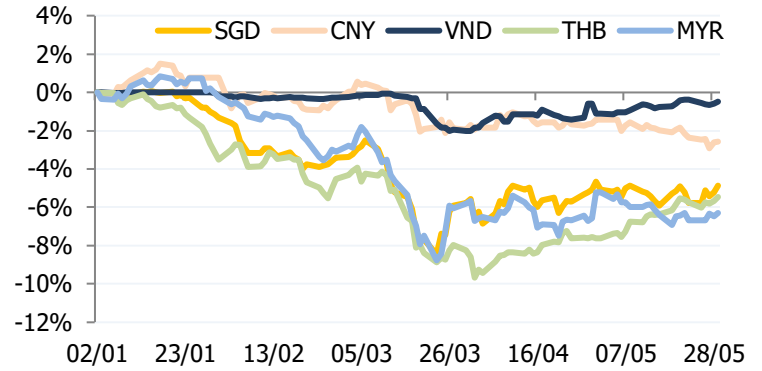
We forecast the exchange rate will increase slightly to 23,351 VND/USD. The stability of the exchange rate shows investors' confidence in the health of Vietnam's economy. We expect the inflationary pressures will increase by the end of the year as import demand is usually higher, however, as Fed is expected to continue loosening monetary policy to support growth, Vietnam's trade surplus improved, and investors' demand for VND increases, the VND/USD exchange rate will remain stable and increase 1-2% in 2021.

VND/USD exchange rate



Source: Bloomberg.

Selected currencies against USD



Source: Bloomberg.

Vietnam's economic indicators

Economic indicators	2014	2015	2016	2017	2018	2019	2020F
1. GDP, population & income							
Nominal GDP (USD billion)	186,2	193,2	205,3	223,8	245,2	262,4	275
Real GDP growth (%)	6,0	6,7	6,2	6,8	7,1	7,0	4,8
Exports of goods and services (% yoy)	13,8	7,9	9,0	21,8	13,2	8,4	4,5
Imports of goods and services (% yoy)	12,0	12,0	5,6	21,9	11,1	6,8	3,9
Population (mn people)	91,7	92,7	93,6	94,6	95,5	96,4	97,3
GDP per capita (USD)	2.047	2.086	2.172	2.353	2.551	2.740	2.832
Unemployment rate (%)	2,1	2,33	2,33	2,2	2,2	2,2	2,9
2. Fiscal indicators (%GDP)							
Government debt	46,4	49,2	52,7	51,7	50	49,2	48,5
Public debt	58	61	63,7	61,4	58,4	56,1	54,3
Foreign debt	38,3	42	44,8	48,9	46	45,8	45,5
3. Financial indicators							
USD/VND exchange rate	21.373	22.485	22.740	22.690	23.180	23.228	23.351
Inflation rate (%)	4,1	0,6	2,7	3,5	3,5	2,8	3,7
Credit growth	14,2	17,1	18,7	18,2	13,9	12,1	14,2
12-month lending rate	8,8	8,5	8,5	8,5	8,5	8,5	8,0
Trade balance (USD million)	2.368	-3.759	1.602	1.903	6.795	11.100	11.900
Goods: Exports (USD million)	150.217	162.017	176.581	215.119	243.483	264.200	275.400
Goods: Imports (USD million)	147.849	165.776	174.978	213.215	236.688	253.100	263.500
Current account (USD million)	9.074	-119	5.924	4.676	5.844	5.435	5.266
Foreign reserve (USD million)	34.575	28.616	36.906	49.497	54.491	79.000	90.000

Source: MBS summarized and projected.

PRODUCT

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MBS HEAD OFFICE

MB Building, 3 Lieu Giai, Ba Dinh, Hanoi

Tel: + 8424 3726 2600 - Fax: +8424 3726 2601

Website: www.mbs.com.vn

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