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Vietnam Outlook

- **GDP in Q3 rose by 2.6% y-o-y, relatively weak due to the resurgence of Covid-19 worldwide.**
- **Export turnover in September experienced a 18% yoy increase, the trade balance recorded a historic surplus of USD17 bn in 9M.**
- **New export orders surged as business conditions improved, Vietnam's Manufacturing PMI rose to 52.2 in September.**
- **A few routes of international flights have been reconnected by the end of September, however, still limited to foreign experts and Vietnamese workers and students abroad, yet open to foreign tourists.**
- **The SBV continued to lowered key interest rates to revive the economy.**
- **The VND/USD exchange rate remains relatively stable in September due to dollar's weakness.**

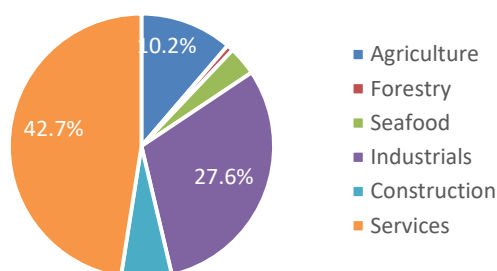
Economic activity

Economic performance

According to data from GSO, GDP in Q3 rose by 2.6% y-o-y, compared with an increase of 0.4% yoy in Q2. The economic recovery is relatively weak, despite the pandemic is under control and business activities gradually normalize. Contributed to this recovery was the agriculture, forestry and fishery sector which expanded 2.9% yoy, industrial production and construction increased by 3%. Almost all sectors of the economy had a partial recovery, the service sector increased 2.8%, and exports rose 2.9%. The tourism industry still faces many difficulties despite some international flights are resumed in the second half of September, the number of international visitors to Vietnam in Q3 decreased by 99% year-on-year, revenue from accommodation and catering service fell 7.8%.

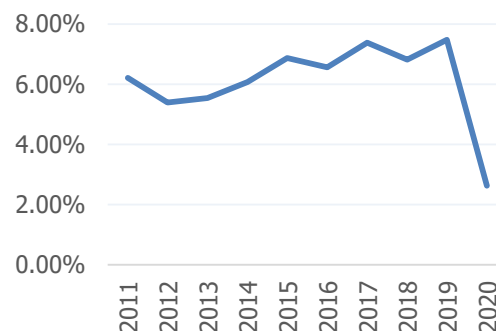
We expect Vietnam's GDP growth in Q4 will be improved, but it is difficult to expand sharply as international demand remains weak due to the uncertainties of the Covid-19 while the number of international tourists to Vietnam remains limited. GDP growth this year is expected to reach 2.8% -3.1%, mainly due to the acceleration in public investment and major infrastructure projects that have been implemented. Demand from Vietnam's key export markets is still slowly recovering, but exports of some products such as footwear, furniture, and electronics will be positive thanks to the benefits of tariff reduction to the EU market when EVFTA takes effect from August 1.

Contribution to GDP in 9M2020



Source: GSO.

3Q GDP growth in 2011-2020 period



Source: GSO.

Trade activity

According to the GSO, the export turnover of goods in September 2020 increased 18% over the same period, while the import turnover increased by 11.6%. In nine months, export turnover was estimated at USD203 billion, rose 4.2% yoy, while import turnover reached USD186 billion, slightly fell 0.8% y-o-y. Trade balance recorded a historic USD17 billion surplus.

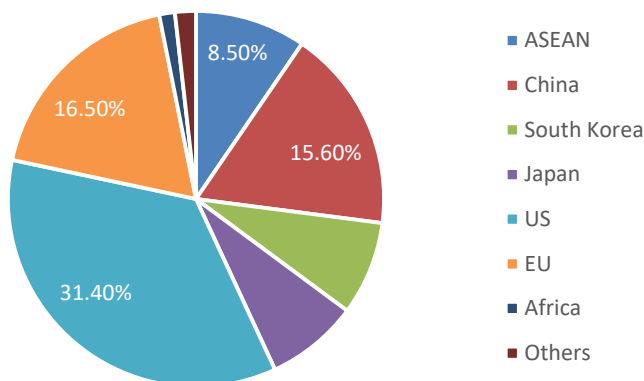
The EVFTA free trade agreement with Europe, which took effect from August 1, is a boost to Vietnam's manufacturing and export sectors when 71% of Vietnam's exports to the EU are

immediately exempt from tariff. And 99% of goods will be duty-free in 7 years. The EU is currently the second largest export market of Vietnam which accounts for 16.5% of Vietnam's export turnover in 9M2020, with the export turnover continuously increasing over the past decade. Exports of electronic products such as cellphones and computers account for 40% of Vietnam's export turnover to the EU in 2019 as Vietnam is the assembly site of large multinational technology corporations like Samsung. Labor-intensive manufacturing industries with the advantage of low cost labor such as footwear and textiles continue to have bright export prospects to the EU in the medium and long run. Besides, furniture, pangasius and coffee are also important export products to the EU market.

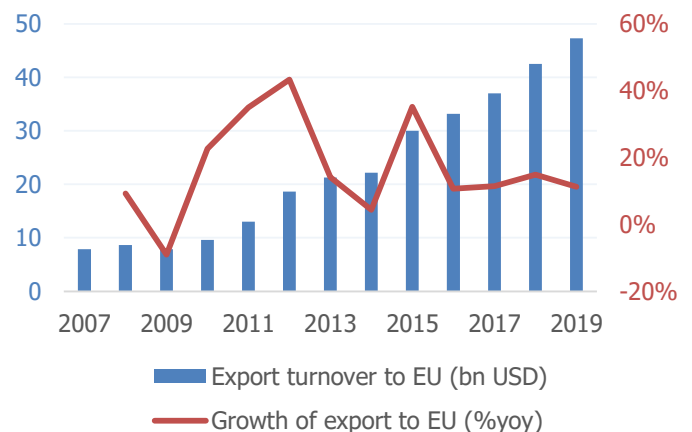
On September 16, Vietnam exported the first batch of coffee with 0% tax rate to the EU, accordingly, the import tax on processed coffee from Vietnam to the EU decreased to 0%, from 9%-12% previously. The EU is the largest coffee consumption market of Vietnam, accounting for 40% of the country's coffee export output. Vietnam is the world's second largest coffee exporter, with more than 500 thousand employees working in the cultivation and processing of coffee. Therefore, the tax exemption for coffee products will be a positive factor for this export product.

Wood products and furniture are also exempt from tax under EVFTA. 83% of wood products will have import tax reduction to 0% (from 6% previously), and the remaining 17% of products will enjoy tax reduction to 0% after 5 years. According to the Handicraft and Wood Industry Association of Ho Chi Minh City, the export value of wood products to the EU may exceed USD1 billion just 1 year after the EVFTA takes effect. Furniture and wood products industry continues to have a positive medium to long-term outlook with good competitive advantage thanks to its scale and long tradition, in addition, the US has imposed 25% tax on wood products from China since 2018, is also a positive factor for Vietnam's wood export sector as an alternative source.

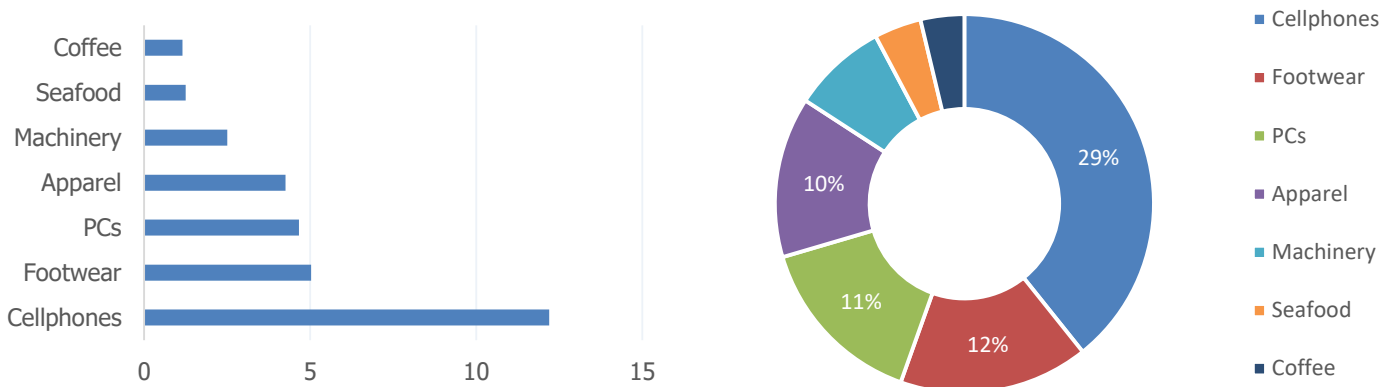
Export market of Vietnam in 8M2020



Vietnam's export to the EU in 2007-2019



Vietnam main exports to EU and its weights in 2019



Source: GSO, Customs.

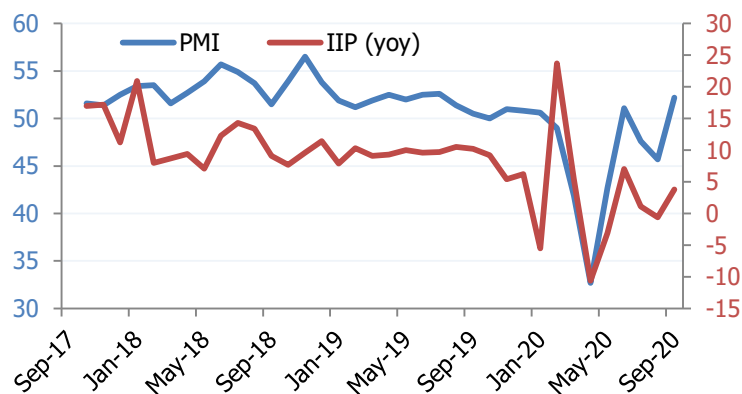
Industrial production

Vietnam's manufacturing PMI has risen sharply again above the 50 balance level in September to 52.2, from 45.7 in August, according to IHS Markit Economics. This is the most significant increase since July 2019 with positive business conditions after the Covid pandemic has been successfully controlled.

The number of export orders surged for the first time since January, causing output to have the strongest increase in 14 months. The export sector is showing a positive recovery, improving business confidence in future business prospects. Firms also increase the purchasing activities of materials and input when new orders expand, however, inventories of finished products also increased sharply in some businesses due to limited sales.

Positive signals from industrial production activities come from the recovery of domestic as well as international demand. While domestic demand has been improving markedly, international demand affected by the unpredictable development of epidemics is a factor that may hinder the recovery of industrial production in the last months of the year.

Vietnam's PMI manufacturing and IIP (% change yoy)



Source: Bloomberg.

Consumption

On September 18, Vietnam officially resumed international commercial flights between Hanoi and Ho Chi Minh City with Seoul, Tokyo, Guangzhou, Taipei, Laos, and Cambodia with a limited number of flights per week. The number of passengers on these flights is still limited for Vietnamese workers, international students abroad, experts, diplomats and foreign investors (and their relatives) coming to work in Vietnam. Upon arrival, passengers must have a Covid negative certificate issued by their host country 3 days prior to the flight, and must be in quarantine for 14 days at the assigned quarantine facilities (at their own expense for testing and accommodation at the hotels which costs up to 1,2 million-5 million/day). With strict quarantine regulations and the epidemic situation globally still develop with complication, we believe that the number of international tourists coming to Vietnam from now til the end of the year will not be able to improve and will slowly recover from 2021, thereby limiting the ability of Vietnam's tourism industry to recover this year.

Policy

SBV lowered interest rates to support the economy

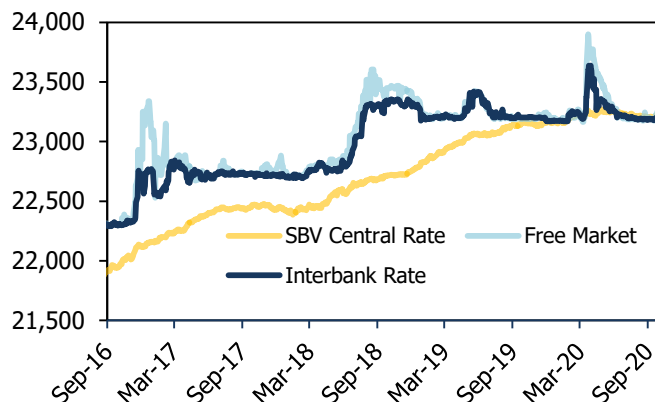
The State Bank for the third time this year continues to adjust the interest rates by 50 basis points lower to support the economic recovery on September 30th. In addition, the State Bank also lowered the interest rates ceiling on short-term deposits and loans in VND at financial institutions to help businesses and households reduce capital costs, restructure debts and provide liquidity for the market, and the capital needed for purchasing activities, paying salary and bonuses which often increase strongly during the year end. Central Bank is still concerned about the strength of the economic recovery as the tourism industry continues to struggle due to the epidemic despite some international routes have been reconnected. The main growth driver of the economy is still the expansionary fiscal policy and the government's infrastructure spending.

Exchange rate

The VND/USD exchange rate remains stable in September

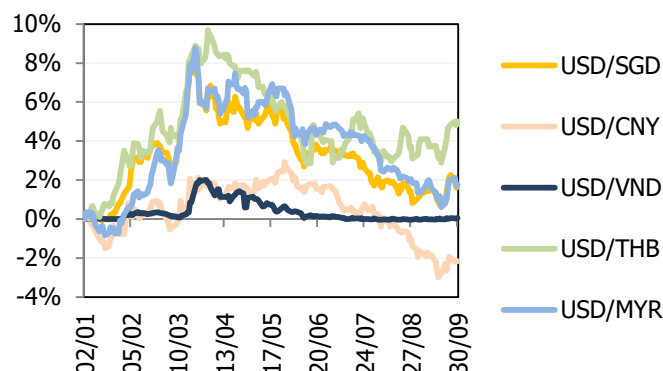
With the ability to control the epidemic well, the Vietnam economy has outperformed the rest of the world, a contributing factor that helps maintain the strength of the dong. Trade balance has a surplus of USD17 billion after 9 months and Vietnam's foreign reserves hit a record of USD92 billion (equivalent to 4 months of imports), both contributed to the stability of the exchange rate in recent months. Investors' confidence in the health of Vietnam's economy continues to be a positive factor for the dong. The depreciation of the dollar in the past months has reduced pressure on the exchange rate, but we believe that the dollar is likely to rebound in the coming months, especially if Mr. Joe Biden wins the presidency. The strength of the dollar will be significantly improved as investors sentiment towards the US economy will be positive with stable policies from a capable administration instead of Mr. Trump's style of policy-making with many elements of surprise.

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	269,7
Real GDP growth (%)	6,0	6,7	6,2	6,8	7,1	7,0	2,8
Exports of goods and services (% yoy)	13,8	7,9	9,0	21,8	13,2	8,4	1,1
Imports of goods and services (% yoy)	12,0	12,0	5,6	21,9	11,1	6,8	-0,9
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	2.802
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	51,5
Public debt	58	61	63,7	61,4	58,4	56,1	58,3
Foreign debt	38,3	42	44,8	48,9	46	45,8	47,0
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	10
12-month lending rate	8,8	8,5	8,5	8,5	8,5	8,5	7,5
Trade balance (USD million)	2.368	-3.759	1.602	1.903	6.795	11.100	16.100
Goods: Exports (USD million)	150.217	162.017	176.581	215.119	243.483	264.200	267.100
Goods: Imports (USD million)	147.849	165.776	174.978	213.215	236.688	253.100	251.000
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.

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