

**Macroeconomic Outlook**

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**Long Nguyen**

Analyst

[Long.nguyenphi@mbs.com.vn](mailto:Long.nguyenphi@mbs.com.vn)

**Tuan Hoang**

Head of Macro

[Tuan.hoangcong@mbs.com.vn](mailto:Tuan.hoangcong@mbs.com.vn)

**Vietnam Outlook**

- Data from GSO shows positive developments in Vietnam's trade performance in October 2020, with export growth estimated at 9.9% y-o-y, while import turnover increased by 10.1% yoy
- Industrial production accelerated the second month in a row in October when the IIP increased by 3.6% MoM and 5.4% yoy, of which manufacturing sector expands 8.3% yoy.
- 9M2020, total investment capital increased by 4.8% yoy, equal to 34.7% of GDP, of which investment from the public sector increased strongly thanks to the expedited disbursement of public investment.
- 9M2020, state revenue reached 902.5 trillion dong, fallen by 12.3% YoY, meanwhile, expenditure rose by 7.7%, totaling 1,036 trillion.
- The VND/USD exchange rate moves in a narrow band with a fairly stable valuation thanks to the strong performance of the economy.

## Economic activity

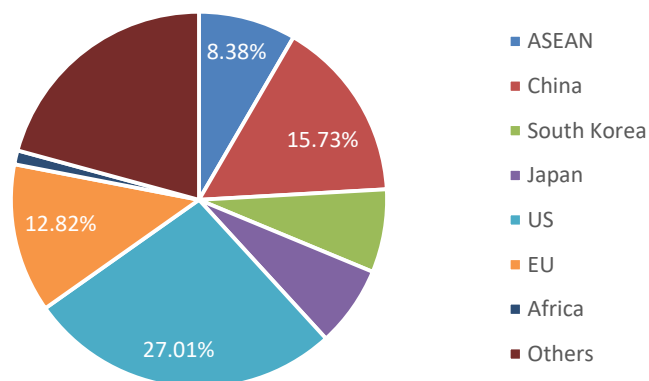
### Trade activity

Data from GSO shows positive developments in Vietnam's trade performance in October 2020, with export growth estimated at 9.9% year-on-year, while imports increased by 10.1% yoy.

The positive growth of import activities is a reflection in the health of domestic consumption demand, as import of commodities saw a significant surge in value such as crude oil (+124% yoy), rubber (+41.2%), electronics (+40%), telephone (+31.9%). Export of various products has risen substantially, such as electronics, computers (+13.6% yoy), machinery and equipment (+58.3%), furniture (+41.6%), iron and steel (+43%). It is estimated that in 10M2020, the export turnover increased by 4.7% over the same period, with the main contribution from the export of consumer electronics (made up more than one third of the total export turnover). Trade surplus in the 10 months is estimated to hit a record 18.7 billion USD.

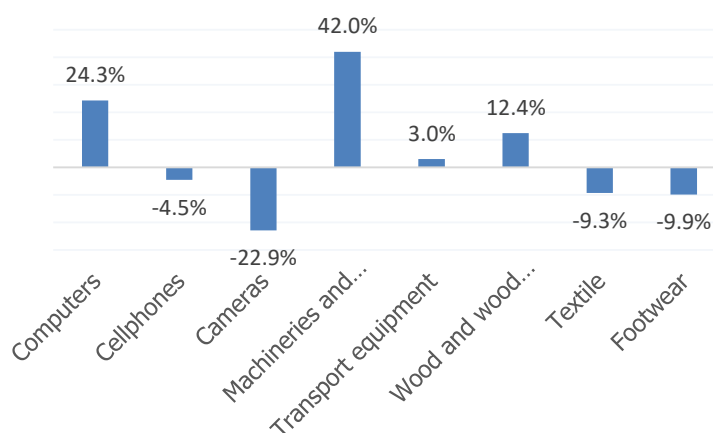
The risk for the recovery of export activities in Q4 is increasing as the Covid epidemic is returning with a lot of uncertainties in Europe, Vietnam's third largest export market as major economies in the bloc have implemented a minimum of 4-week lockdowns, which will likely reduce consumption demand in this market. The main items affected are shoes (-21.6% yoy), textiles (-3.2%), fashion accessories (-23.7%).

### Export market of Vietnam in 9M2020



Source: GSO, Customs.

### Growth of major export products in 10M (% yoy)



Source: GSO.

### Industrial production

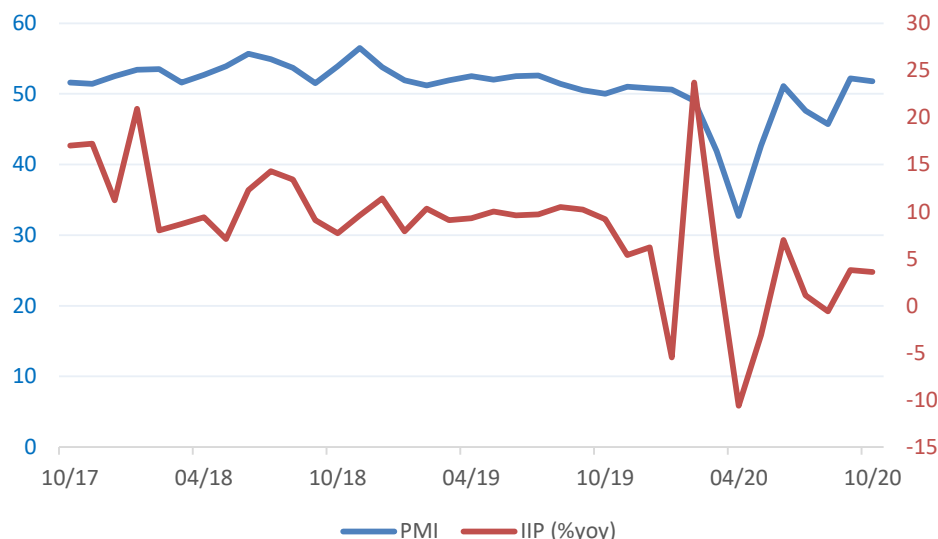
Industrial production continued to accelerate in October when the Industrial Index of Production (IIP) increased by 3.6% MoM and 5.4% yoy, of which manufacturing sector rose significantly with an increase of 8.3% yoy. Overall, in 10M2020, the IIP increased by 2.7% yoy.

The main contributor to the increase of the industrial index and the manufacturing sector was the production of electronic products, computers with an increase of 16.9% yoy, thanks to the

double-digit growth in export of computer and electronics due to stable global demand for electronics despite Covid-19. The increase in the number of people working from home has led to increasing demand for computers and laptops in major export markets such as the US and Europe, as well as demand for Christmas shopping season are key factors supporting the production of consumer electronics. The positive effect will be dampened by the risk of the return of the epidemic as many European countries reintroduce national lockdown measures. Besides, growth is positive in the manufacturing of drugs and pharmaceuticals, equipment and machinery with growth rates of 25.4% and 20.2% respectively.

Manufacturing PMI also had the 2nd month with a positive recovery in production activities of surveyed enterprises. The PMI index remained above the 50 balance level at 51.8 in October, down slightly from 52.2 in September. Business conditions continued to improve, thanks to the number of increasing new orders, which further leads to an increase in production output, and recruitment of new employees increased for the first time since January 2020. Raw material procurement has also been strengthened, however the shortage of raw materials in the international market has caused input cost inflation to experience a firmest increase in the last 26 months, causing businesses to shift their costs to customers. Businesses show confidence in the recovery of production and new orders in 2021 after the disease is under control and the global economy recovers.

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



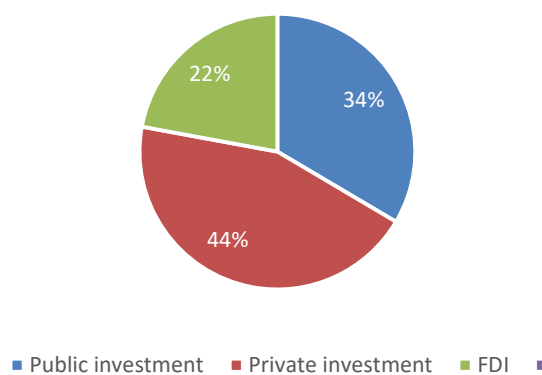
Source: Bloomberg.

## Investment

Investment is a crucial driver of economic growth when other economic activities are still negatively affected by the Covid epidemic. Generally, in 9M2020, total investment (private and public) increased by 4.8% yoy, equals to 34.7% of GDP, of which investment activities from the

public sector increased robustly thanks to the disbursement of public investment. Investment activities from the private and foreign sectors remain weak due to limited demand for goods and services and despite positive export growth, the trade outlook remains uncertain in Q4 when the development of the pandemic is having many complications in Vietnam's major export markets including the US and EU. State sector capital reached 484.8 trillion VND, accounted for 33.5% of total capital, up 13.4% yoy, the non-state sector reached 641.5 trillion VND, totaled 44.4%, Foreign direct investment reached 319.1 trillion dong, made up 22.1%, down 2.5%.

## Contribution to total investment



Source: GSO.

## Policy

In 9M2020, state revenue reached 902.5 trillion VND, down 12.3% over the same period, meanwhile, expenditure increased by 7.7% yoy to VND1,036 trillion. Tax revenue is recovering thanks to normalization of economic activities and improved income from imports of goods. However, severe flooding in the central provinces may reduce tax revenue in the last months of the year. Government spending continued to increase strongly due to the expedition of investment in infrastructure, with spending for investment for development in 9M amounts to 235.3 trillion VND, up 35% yoy. The social expenditures also increased due to the support and funding for Central Vietnam influenced by the floods, and the poverty reduction program. The budget deficit is expected to increase in the period 2020-2021, according to the State Audit, the budget deficit will rise to nearly 5% of GDP in 2021, equivalent to 340 trillion VND.

## State Budget (up to 15/09/2020)

Source: Ministry of Finance, GSO.

VND billion	2020	9M2020	% Target	9M2020 vs 9M
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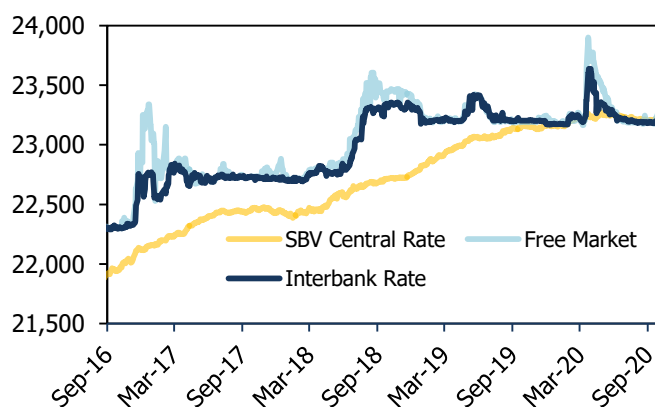
	Estimates			2019
<b>Revenue</b>	<b>1,512,300</b>	<b>902,500</b>	<b>59.7%</b>	<b>-12.3%</b>
Domestic	1,264,100	747,300	59.1%	-9.4%
Oil and gas	35,200	26,300	74.9%	-35.3%
Exports-imports	208,000	128,000	61.6%	-19.9%
Official aid	5,000			
<b>Expense</b>	<b>1,747,100</b>	<b>1,036,400</b>	<b>59.3%</b>	<b>+7.7%</b>
Investment	470,600	235,300	67.8%	+35.0%
Current expenditure	1,056,485	716,300	50.0%	+3.5%
Interest payment	118,192	78,400	66.3%	-0.3%
Principal repayment	245,031			
<b>Budget Balance</b>	<b>-234,800</b>			
Budget deficit	3.44%			
<b>Budget loan</b>	<b>488,921</b>			

## Exchange rate

### Strong economic performance and large buildup of foreign reserve put upward pressure on the dong

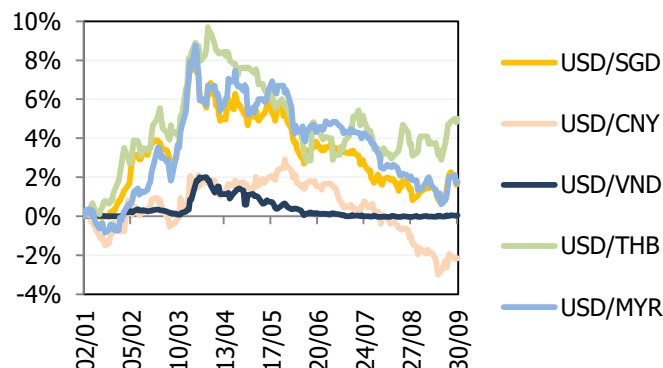
The VND/USD exchange rate continued to move in a narrow band with a fairly stable valuation thanks to a stronger economic performance compared to the rest of the world amid the impact of Covid pandemic. With GDP growth this year expected to reach 3% thanks to the successful control of the disease, the dong will be under upward pressure relative to other currencies. Besides, the increase in the accumulation of foreign exchange reserves to stabilize the exchange rate by the SBV is also a factor supporting the strength of the dong although the USD may recover in Q3 thanks to positive GDP data. A diversified and dynamic economy will help strengthen the resilience and stability of the dong in the coming time.

### VND/USD exchange rate



Source: Bloomberg.

### Selected currencies against USD



Source: Bloomberg.

**Vietnam's economic indicators**

<b>Economic indicators</b>	2014	2015	2016	2017	2018	2019	2020F
<b>1. GDP, population &amp; income</b>							
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
<b>2. Fiscal indicators (%GDP)</b>							
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
<b>3. Financial indicators</b>							
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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## MBS HEAD OFFICE

MB Building, 3 Lieu Giai, Ba Dinh, Hanoi

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

Website: [www.mbs.com.vn](http://www.mbs.com.vn)

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