trueFriend KIS Viet Nam Securities Corporation

Economy
Monthly

25 Jan 2022

Economic Perspectives

Economy backs to the highway

GDP to re-accelerate
About the 2022 outlook, we forecast that Vietnam's real GDP to re-accelerate in 2022 with building blocks of the continuity of the "living with COVID-19" strategy and the implementation of the approved stimulus package. Based on already high vaccination, the government's policy in combating infection is expected to be less stringent than in 2021. Accordingly, domestic consumption will recover and disrupted production will be limited under Resolution 128. In addition, the government's stimulus package with more concentration on infrastructure development will add investment and consumption demand in the next year. Favorable trade with high external demand will be the third pillar. Fourth, FDI flows are expected to return strongly after two years of postponing. The inflow of foreign capital will create short-term demand and enhance mid-term growth for Vietnam's economy. Hence, we forecast Vietnam's real GDP to grow by 7.02% YoY in 2022.

IIP to maintain high growth momentum
The industrial sector has been on a sharp recovery in the reopening since September. In December, industrial production continued growing 3.5% MoM to hit its new peak, up 8.7% YoY. In our view, 2022 will lead the industrial sector into a new path, with a return of domestic demand as a new growth driver. We see supply-chain bottlenecks no longer remain an existential risk to production activities (with very-high vaccination and the government's stance towards full normalization of economic activity), while export demand has less room to lead the industrial growth in the third year of global recovery. Instead, as the impact of the pandemic is largely mitigated in Vietnam at the current time, domestic demand would likely benefit from: (1) pent-up demand effect (in the domestic market); (2) rebound in new domestic investment demand; and (3) great potential from the upcoming fiscal-monetary support program.

KIS leading economic index (%, USD bn, %, %, % YoY)

	1Q21	2Q21	3Q21	4Q21	2020	2021	2022F
GDP growth	4.48	6.61	(6.02)	2.58	2.91	2.58	7.5
Trade balance	2.82	(3.75)	(1.00)	5.22	10.42	19.01	4.61
Inflation	0.30	2.67	2.16	1.89	5.23	3.24	1.84
Discount rate	3.00	3.00	3.00	3.00	4.00	3.00	3.00
VND/USD	23,076	23,020	22,761	22,790	23,231	23,255	22,790
US GDP	NA	NA	7.90	NA	2.29	(3.41)	5.97
China GDP	NA	NA	6.00	NA	5.95	2.34	8.02

Source: KIS

Contents

I. GDP to re-accelerate ... 1
II. Trade to grow impressively ... 4
III. IIP to maintain high growth momentum ... 7
IV. Retail sales to recover ... 14
V. CPI to be higher ... 15
VI. FDI to further recover in the reopening phase ... 17
Macro scorecard ... 23

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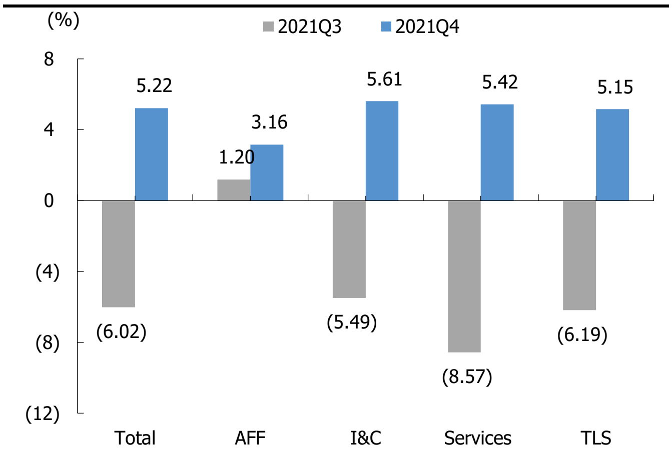
I. GDP to re-accelerate

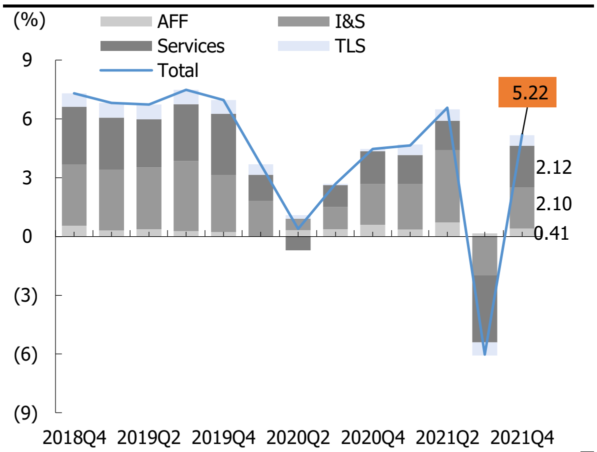
4Q21 performance of Vietnam's economy was the evidence for the resilience in domestic production and consumption in the re-opening phase, creating momentum for economic activities in the next year. According to GSO, GDP growth in 4Q21 was 5.22% YoY, returning to the positive territory after a virus-devastated quarter of economic contraction in 3Q21. By sector, services made the most impressive rebound when its growth rate returned to an expansion of 5.42% YoY in this quarter after a contraction of 8.57% in 3Q21, indicating that the business scale in the services sector has backed to the pre-lockdown level. Similarly, industry and construction sector (I&C) improved significantly by increasing by 5.61% YoY as external demand remained high and manufacturing returned smooth. In the less extreme movement, the agriculture, forestry, and fishery sector (AFF) accelerated robustly this quarter as its growth rate reached 3.16% YoY from 1.20% YoY on 3Q21.

Figure 1. GDP growths by main sector



Source: KIS, GSO
Notes: AFF= agriculture, forestry, and fishery; I&C = industry and construction; TLS = taxes less subsidies on products.

Figure 2. Sectoral contributions of GDP growth

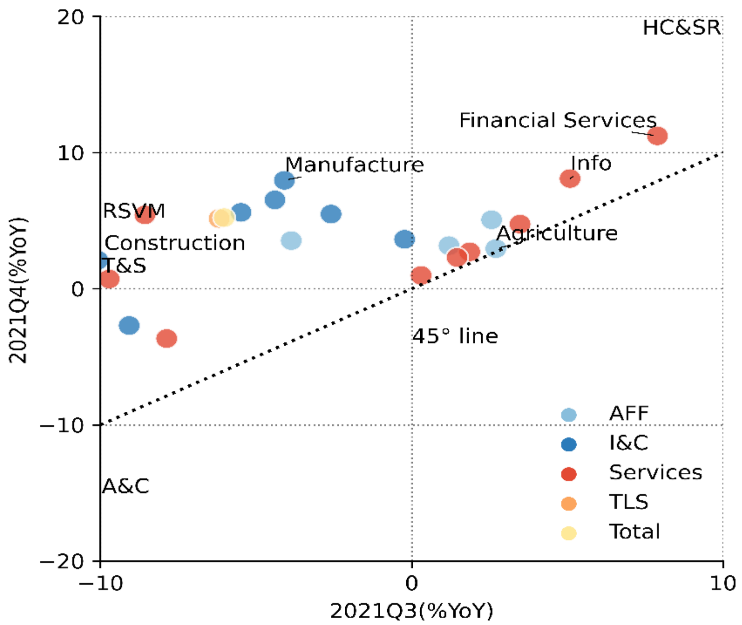


Source: KIS, GSO

In the breakdown at the sub-sector level, GSO's figures show that all second-leveled items improved this quarter, consistent with the general rebound. However, the growth in the services sector was more spatially dispersed than others, with some items accelerated, some less severe, and some made turnarounds. Specifically, financial services, information & communication (Inform), education service, and healthcare and social relief services (HSRS), with the low COVID19-sensitive or benefited characteristic, strengthened their upward momentum further in 4Q21. Financial services, Inform, and education services recorded a growth rate of 11.23% YoY, 8.09% YoY and 3.63% YoY, 334 basis points (bps), 301bps-, and 85bps-higher than those in 3Q21, respectively. Remarkably, HSRS was the most accelerated item with a nearly doubled value-added amount compared to last year. In the more consensual movement, four over five elements in I&C returned to the expansion in 4Q21 from general contraction in the previous quarter. Manufacturing, production and distribution of electricity, gas, hot water, steam and air-conditioning (EGHA), water supply; sewerage, waste management and remediation activities (WSWR), and construction grew by 7.96% YoY, 5.48% YoY, and 3.63% YoY, and 2.09% YoY, contrasting to previous contractions of 4.09% YoY, 2.59% YoY, 0.23% YoY, and

10.08% YoY in 3Q21. In AFF, fishery businesses recorded a similar rebound with the overall GDP by reaching the positive growth rate of 3.53% YoY from the contraction of 3.87% YoY in 3Q21. The growth rates of the remaining sub-sectors, including agriculture and forestry, became 24bps- and 250bps-higher in this period to post 2.94% YoY and 5.07 %YoY in this period.

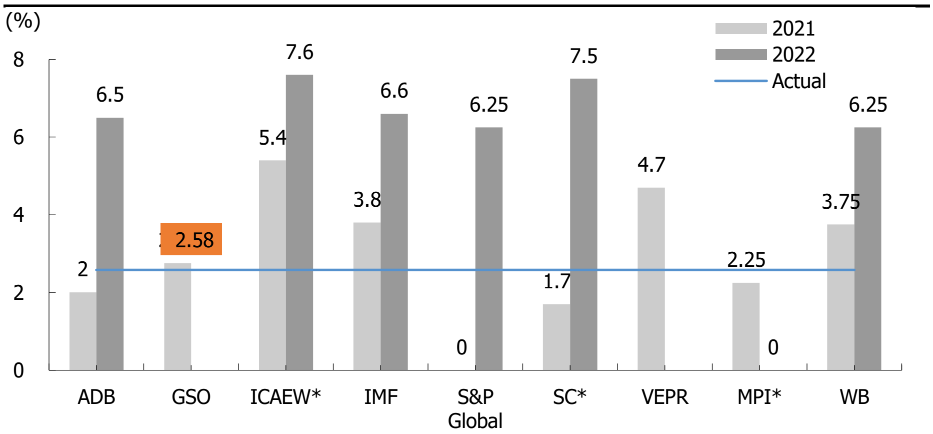
Figure 3. GDP growths by sub-sector



Source: KIS, GSO
Notes: AFF= agriculture, forestry, and fishery; I&C = industry and construction; TLS = taxes less subsidies on products; RSVM: retail sales, wholesales, and sales of vehicles, motorcycles;

Regarding full-year performance, real GDP in 2021 made another slowdown with a less severe extent compared to 2020. By growing by 2.58 % YoY, the growth rate in this year was 33bps-lower than 2020, and this reduction accounted for just 8% of the difference in growth rate between 2020 and 2019, suggesting that there is more likely for Vietnam's economy to return accelerating in the next year. Regarding market consensus, 2021 output in the real term generally outperformed the latest market's expectation. In the fourth quarter of this year, several economic institutions, such as World Bank, IMF, and ADB, downgraded Vietnam's GDP growth to update the COVID-19's effect on domestic production and consumption. In more detail, in the December report, ADB adjusted Vietnam's GDP growth to 2.00% from 3.80% in September. The World Bank also revised its forecast to 2.00%-2.50% from 4.80% in August. Given low expectations from economic institutions, Vietnam's GDP growth rate impressively archived 2.58% YoY with a significant rebound of 4Q21 under Resolution 128 of "living with COVID."

Figure 4. Vietnam's GDP growth expectations by economic institutions

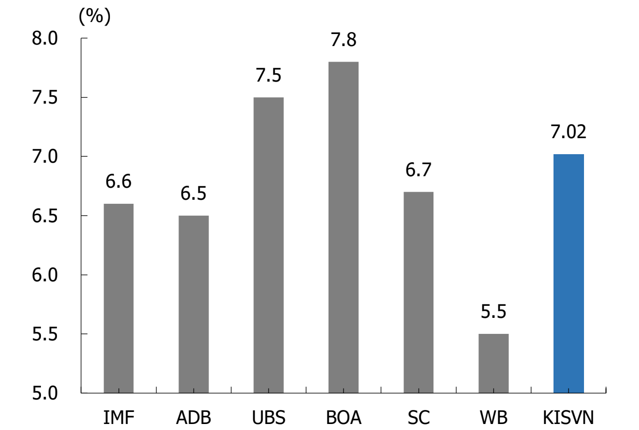


Source: KIS, GSO
Notes: SC= Standard Chartered; MPI= Ministry of Planning and Investment; WB= World Bank
* Forecasts are made before 4Q21

PREDICTION:

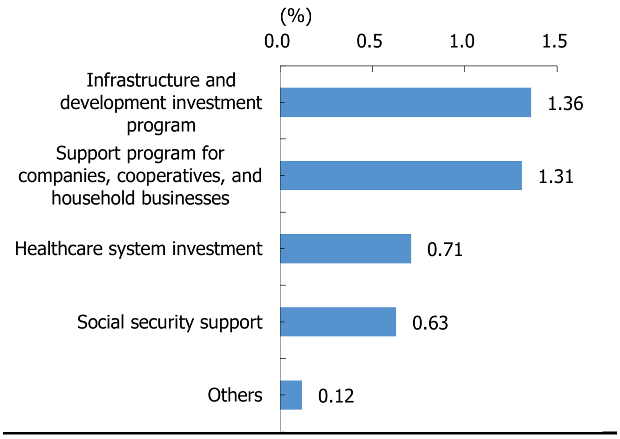
About the 2022 outlook, we forecast that Vietnam's real GDP to re-accelerate in 2022 with pillars of the continuity of the "living with COVID-19" strategy and the implementation of the approved stimulus package. Based on already high vaccination, the government's policy in combating infection is expected to be less stringent than in 2021. Accordingly, the recovery of domestic consumption demand would be the first pillar for Vietnam's economy to re-accelerate in 2022. In addition, the government's stimulus package with more concentration on infrastructure development will add investment and consumption demand in the next year. Favorable trade will be the third pillar. Although WTO forecasts that global trade in the next year will be slower due to the tendency of monetary tightening in western countries, trade revenues of ASEAN-5 and Vietnam are predicted to be on the top growth, contributing to Vietnam's economy to accelerate. Fourth, FDI flows are expected to return strongly after two years of postponing. The inflow of foreign capital will create short-term demand and enhance mid-term growth for Vietnam's economy. Finally, workers have returned to manufacturing hubs, and enterprises are allowed by Resolution 128 to operate continuously even in the stress time of COVID19, ensuring the production disruption to end. Hence, we forecast Vietnam's real GDP to grow by 7.02% YoY in 2022.

Figure 5. 2022 GDP growth forecasts



Source: KIS, GSO
Note: IMF= International Monetary Fund; ADB= Asian Development Bank; BOA= Bank of America Merrill Lynch; SC= Standard Chartered, WB= WorldBank.

Figure 6. Approved stimulus package (as % of GDP)



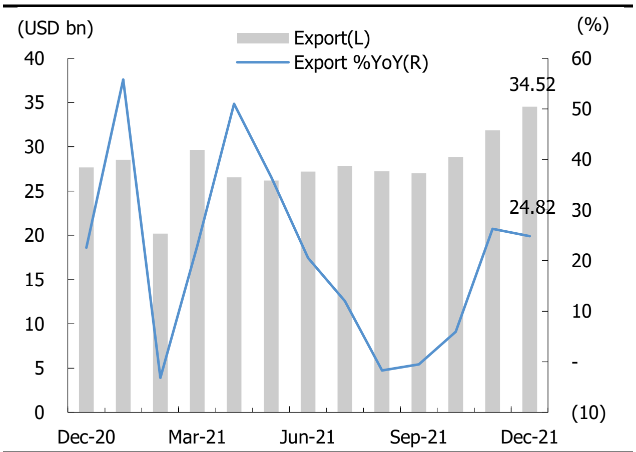
Source: KIS, Vietnam National Assembly

II. Trade to grow impressively

Trade is unexpectedly high in the year-end month

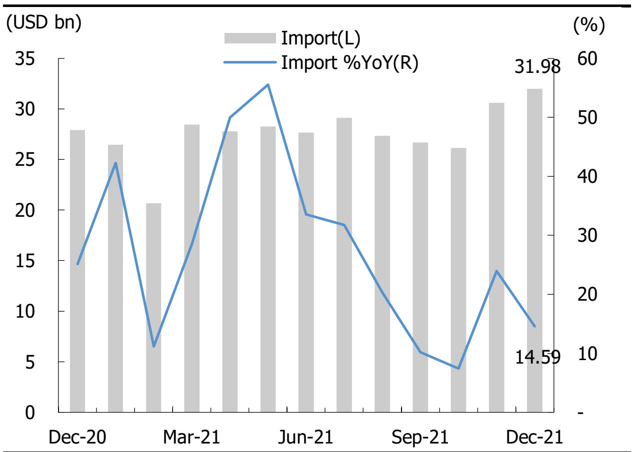
According GSO's publish, trade turnover in December climbed to the new year-high as a consequence of no longer disrupted in domestic production and high external demand in western holiday season. In more detail, export and import values were USD34.52bn and USD31.98bn, increasing by 24.82% YoY and 14.59% YoY, respectively. Accordingly, the total trade in this month reached the year high of USD66.49bn, increasing by 19.68% YoY and 11.38% MoM. The abnormally high export turnover this month seems to reflect the activation of previous backlogs and resulted in a notable surplus of USD2.54bn. For whole 2021, export and import values were USD336.25bn and USD332.25bn, growing by 18.97% YoY and 26.48% YoY, respectively.

Figure 7. Vietnam monthly export



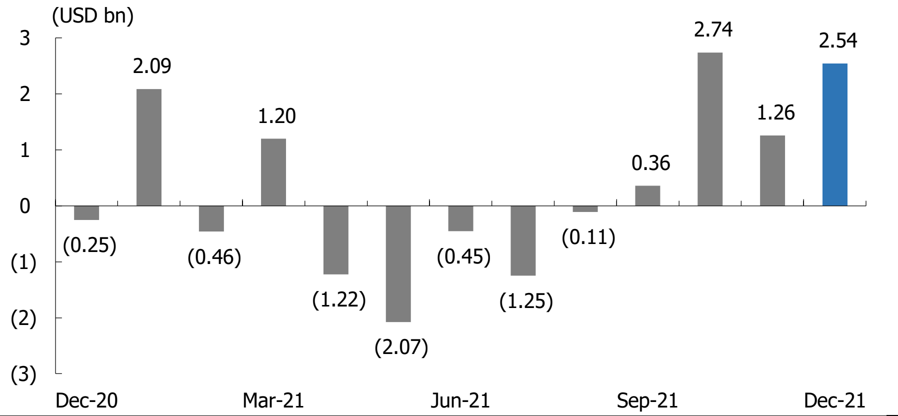
Source: KIS, GSO

Figure 8. Vietnam monthly import



Source: KIS, GSO

Figure 9. Vietnam monthly trade balance



Source: KIS, GSO

Given high growth rates, flagship products continued contributing mainly to the impressive export turnover this month. The mobile phones and parts (TMPP), the computers, electronic products, and parts (CEPP), and the machine, equipment, tools and instruments (METI) climbed further to USD5.60bn, and USD5.50bn, and USD4.30bn, growing by 21.55% YoY, 27.71% YoY, and 36.40% YoY, respectively. Their growth rates generally were much higher than those in the previous month and slightly higher than 3-month averages before September, suggesting that these items were returning to the pre-massive lockdown levels. Furthermore, labor-intensive products, such as textiles, footwear, and wood-related products (W&Wprod), continued improving with export values of two latter items turned higher than those in the same period last year. More specifically, export values of textiles, footwear, and W&Wprod were USD3.60bn, USD1.80bn, and USD1.45bn, growing by 27.19% YoY, 3.52% YoY, and 8.32% YoY. On the other hand, iron and steel turnover of selling to foreign markets reduced to USD0.90bn from USD1.16bn in the previous month. However, the export value of this month remained high relative to last year, when its current value is 63.27% higher than that in December of 2020.

In import structure, most products experienced the slowdown, contrasting to the general acceleration in the export activity. Import values of CEPP, and TMPP were USD7.80bn and USD2.40bn, growing by 25.17% YoY, 12.42% YoY, while import value of METI was USD3.90bn and 5.40%-lower than December of 2020. Chemical import remained notably high when its value reached USD0.85bn, increasing by 51.01 %YoY and 32.81% MoM.

Figure 10. Top 10 export item: growth rates (% YoY)

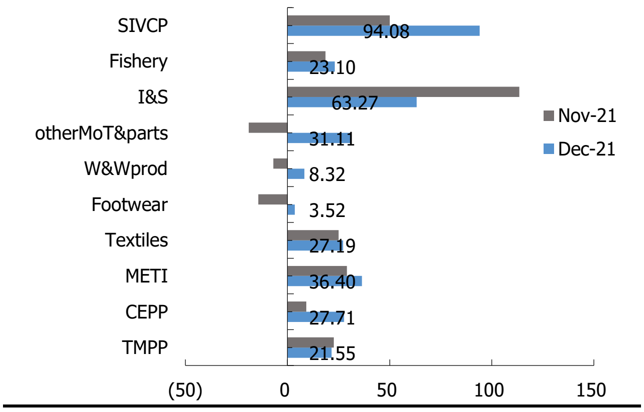
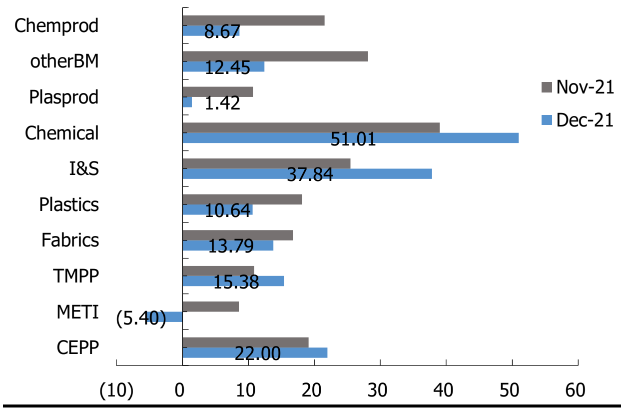


Figure 11. Top 10 import item: growth rates (% YoY)



Source: KIS, GSO

Source: KIS, GSO

TMPP: telephones, mobile phones and parts, CEPP: computers, electrical products and parts, METI: machine, equipment, tools and instruments, otherMoT&parts: other means of transportation parts and accessories thereof, W&Wprod: wood and wooden products, F&V: fruits and vegetables, I&S: iron and steel, Plasprod: plastic products, TLFwMats&Aux: textile, leather and foot-wear materials and auxiliaries, otherBM: other base metals, Chemprod: chemical products; Crude= crude oil; SIVCP: still image & VDO cameras.

Regarding the demand side, U.S. consumer confidence has become more optimistic and could be the main reason to favor Vietnam's export this month. Although attitude toward buying in Eurozone, South Korea, and Japan became less optimistic, the confidence level of American buyers is still high due to the higher expectation of short-term outlook for income, business, and labor market. A less severe inflation condition and well-controlled Omicron in December were the main reasons to improve the consumer confidence index of the U.S.

Figure 12. Global manufacturing PMI

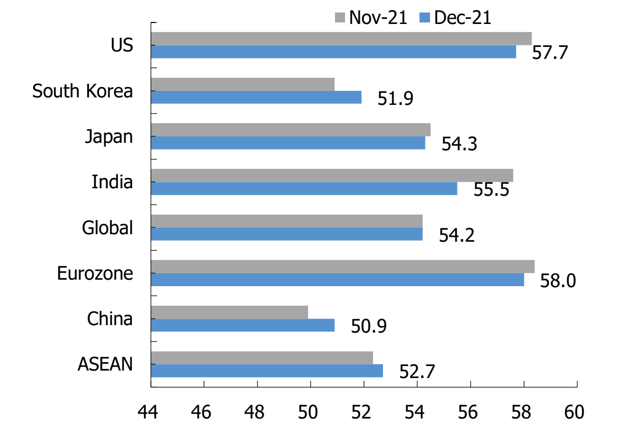
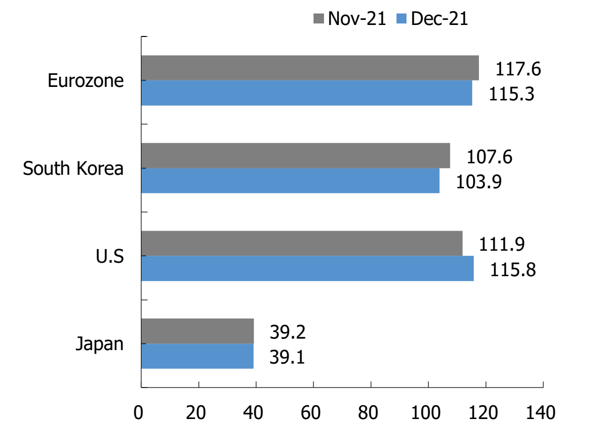


Figure 13. Consumer confidence index



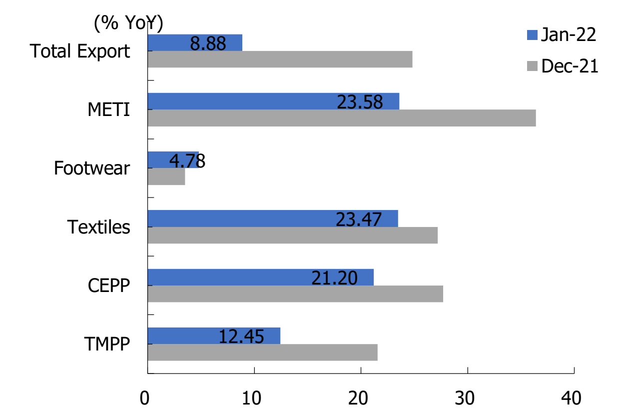
Source: KIS, Our World In Data

Source: KIS, Bloomberg

PREDICTION:

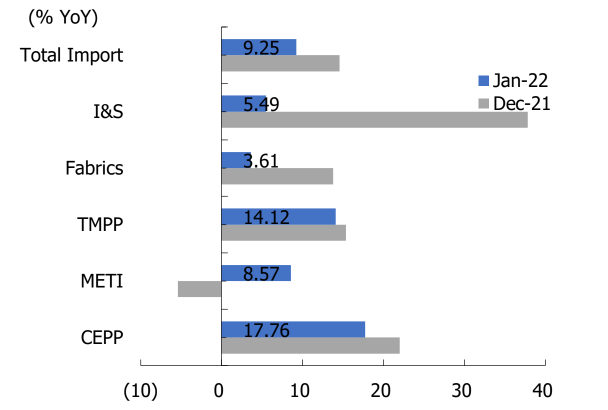
There are several reasons for us to predict that trade activity to grow favorably in the next month. First, the consumer confidence level in our major trading partners, including the U.S., Europe, Japan, and South Korea, remains high, ensuring robust growth in our exporting activities. Second, EVFTA will facilitate trade activities further in 2022 due to tariff concession and technical barrier reduction. Third, this year's Tet holiday will come later than the previous year, indicating that trade turnover will be seasonally higher than the same period last year. Hence, we predict that export and import value to grow by 8.88% YoY and 9.25% YoY in January 2022.

Figure 14. Export forecast for next period



Source: KIS, Our World In Data

Figure 15. Import forecast for next period



Source: KIS, Bloomberg

III. IIP to maintain high growth momentum

Increased export demand drives industrial growth in the reopening phase

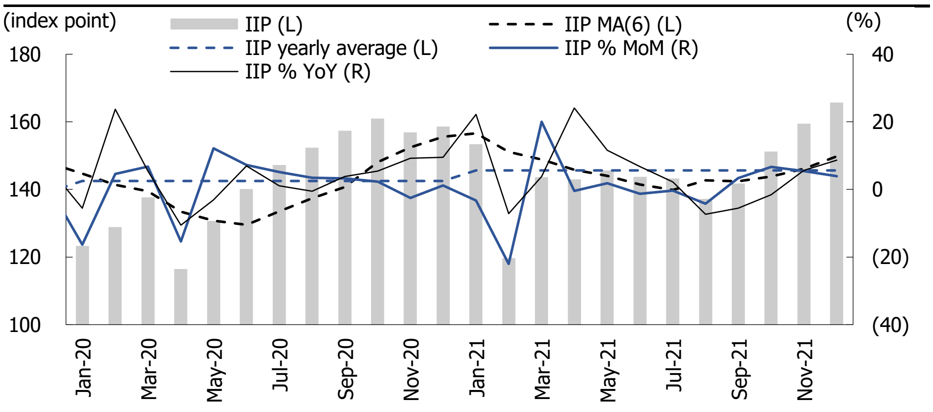
Since the reopening of economic activity from September, most notably the born of Resolution No. 128/NQ-CP about loosening social-distancing restrictions in production and other activities from mid-November, the industrial sector has been on a sharp recovery for four consecutive months, climbing to new record highs continuously in November and December.

On the demand side, surging export demand is considered the main growth driver for the sector in 4Q21, thanks to surging customers' spending in advanced economies in November - December holiday sales, including European and the U.S. as two key export markets. The export demand is seen broad-based, from electronic devices, machinery & equipment, clothing to foods and other agricultural products.

From the supply side, production activity is assured by full normalization following Resolution 128. Besides, labor conditions further recovered and are expected to increase faster after Tet's holiday, supported by the government's support for rental expenses in key manufacturing hubs.

Overall, the industrial production continued growing by 3.5% MoM to hit its new peak, 8.7% higher than December last year.

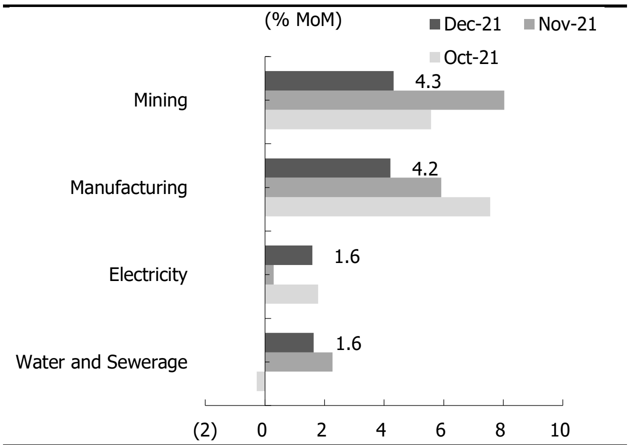
Figure 16. The industrial production



Source: GSO, KIS

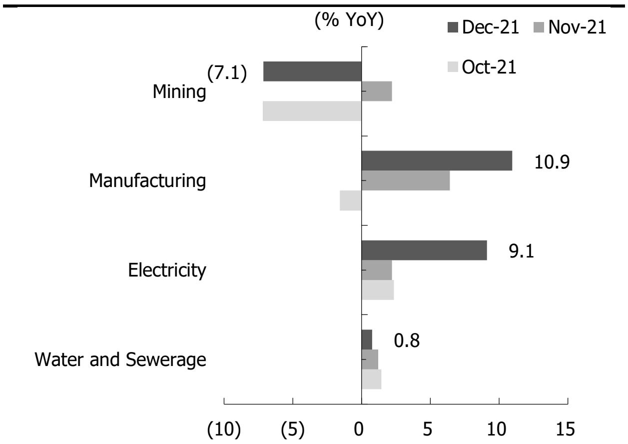
Figures also showed that the manufacturing industry is the primary driver for the fast growth of the industrial sector in the early reopening phase. Growth measures for this sector are outpacing markedly to other level-1 industries in 4Q21, driven by improved demand. Furthermore, thanks to surging global energy prices, the mining sector with key industry "the exploitation of crude oil and natural gas" rebounded sharply in three consecutive months in 4Q21.

Figure 17. Level-1 sub-sector performance, % MoM



Source: GSO, KIS

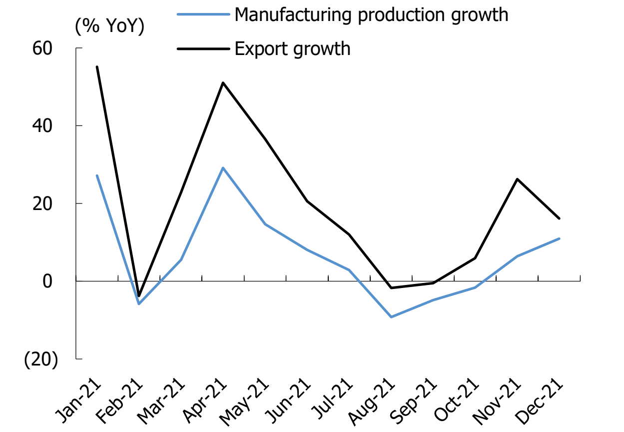
Figure 18. Level-1 sub-sector performance, % YoY



Source: GSO, KIS

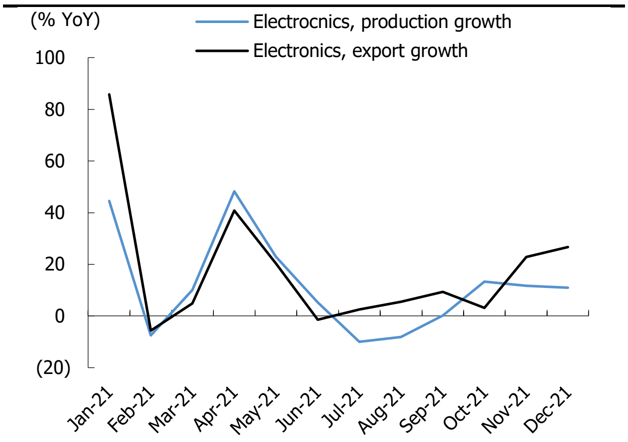
Looking deeper into data, the industrial growth, especially the manufacturing industry, was largely driven by export-oriented group in 4Q21 and December. It was a combination of solid growth in the electronics industries, fast recovery in the textiles & garment & footwear industries, and a marked rebound in the fishery industry. These industries shared the common thing that they were benefiting tremendously from increased foreign demand.

Figure 19. Export drives growth, Manufacturing sector



Source: GSO, VN Customs, KIS

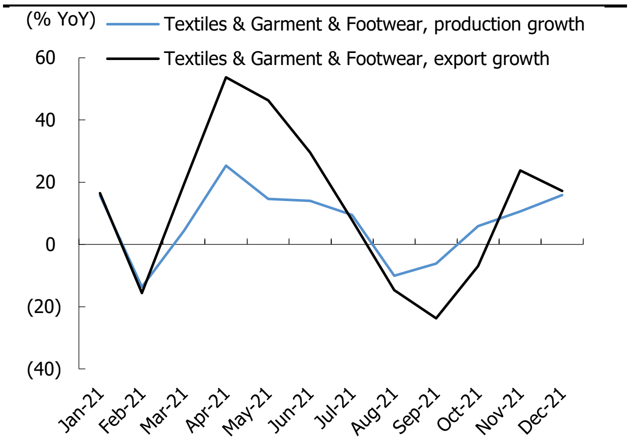
Figure 20. Export drives growth, Electronics industry



Source: GSO, VN Customs, KIS

Note: Electronics production & export includes production & export of mobile phones, electronic components, cameras, and wires & cables.

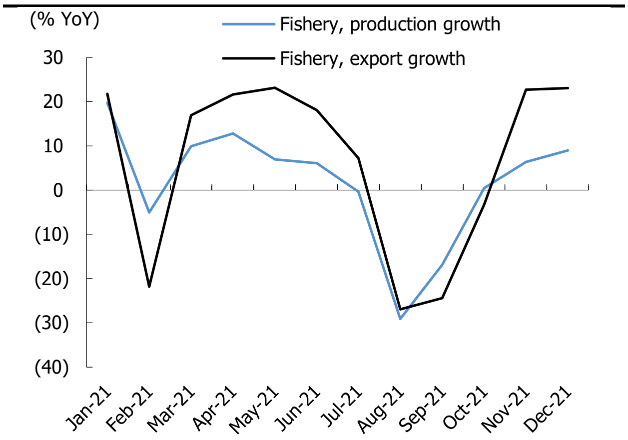
Figure 21. Export drives growth, Textiles industry



Source: GSO, VN Customs, KIS

Note: Textiles & Garment & Footwear production & export includes production & export of textiles, garment, footwear, and other related products

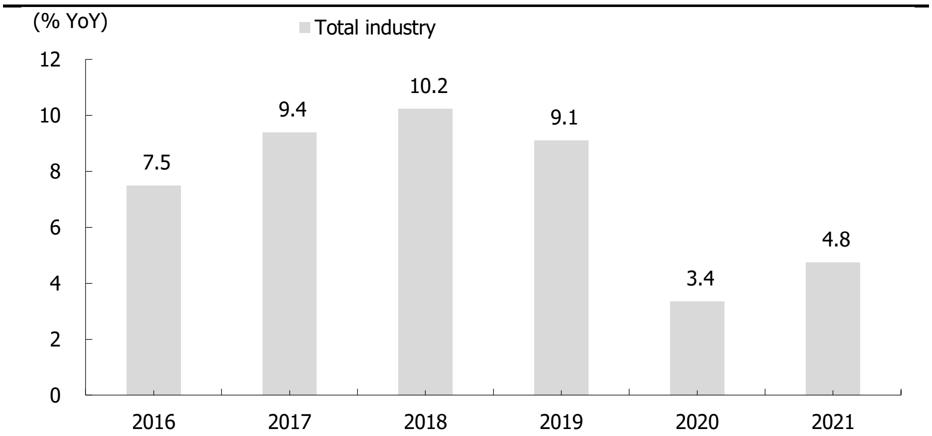
Figure 22. Export drives growth, Fishery industry



Source: GSO, VN Customs, KIS

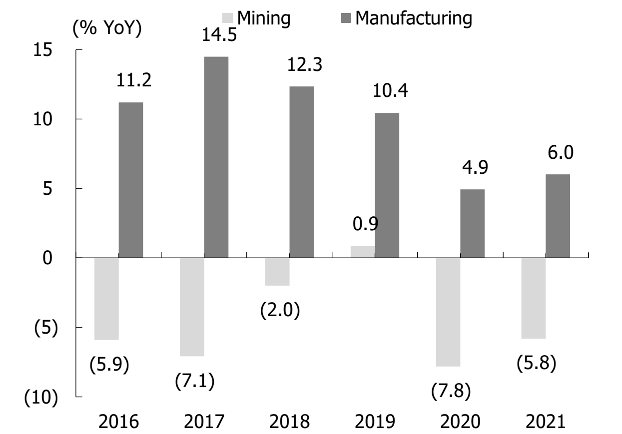
For the whole year 2021, despite experiencing a broad-based disruption in 3Q21, the industrial sector remained in the growth territory, by 4.76% YoY. However, the growth pace in 2021 is among the lowest ones in a period of 2016 – 2021 (still higher than in 2020), but the solid growth momentum in November and December is evident that the health of this sector is remarkably strong and would lay a strong foundation for the industrial outlook next year.

Figure 23. Industrial growth, in 2016 – 2021 period



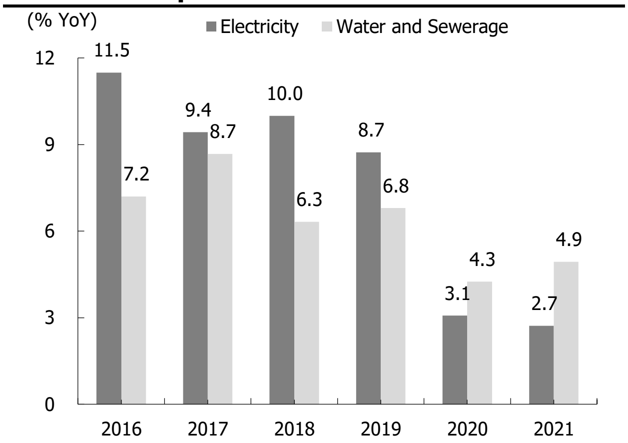
Source: GSO, KIS

Figure 24. Mining & manufacturing growth, in 2016 – 2021 period



Source: GSO, KIS

Figure 25. Electricity and Water & Sewerage growth, in 2016 – 2021 period



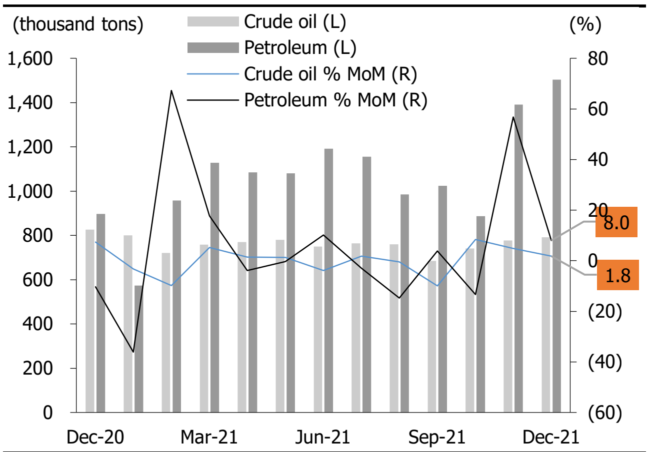
Source: GSO, KIS

Further details about main industries and industrial products are as follows:

Oil & Gas industries:

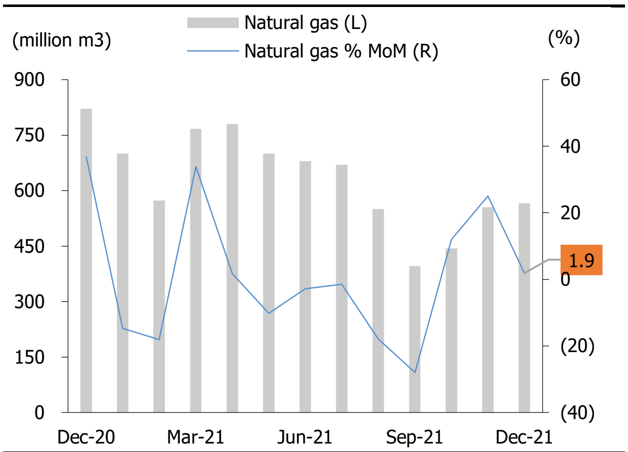
Strong rebound in the exploitation and production activities in November – December were driven by surging global energy prices (thanks to a demand push). Most notably, the production of petroleum products climbed to fresh record highs in November – December. Increasing demand also put production of crude oil & natural gas to their highest levels in 11 months and 5 months.

Figure 26. Production of crude oil and petroleum



Source: KIS, GSO

Figure 27. Production of natural gas

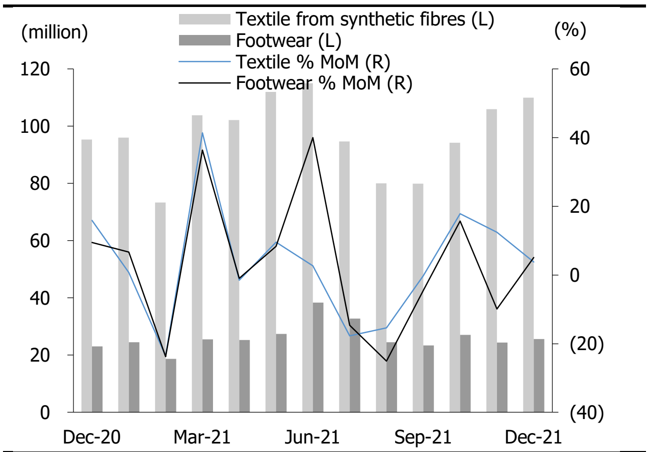


Source: KIS, GSO

Textiles & apparels & footwear industries:

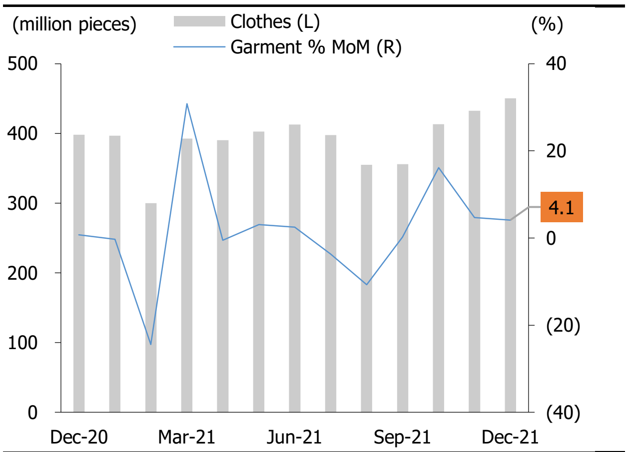
Textiles & apparel & footwear industries benefited greatly from high foreign demand in holiday sales in 2021. According to the U.S. National Retail Federation, November – December retail sales figures in the U.S., which is the largest export market for textiles & apparel & footwear industries, increased by 11.3%, led by a 33.1% surge in sales of clothing and related products. As a result, the production of these industries continued to grow strongly in November – December. The supply is also secured at the time as labor conditions in these industries further improved, surpassing pre-pandemic levels.

Figure 28. Production of textile and footwear



Source GSO, KIS
Textile from synthetic fibres: million m2; Footwear: million pairs

Figure 29. Production of clothes

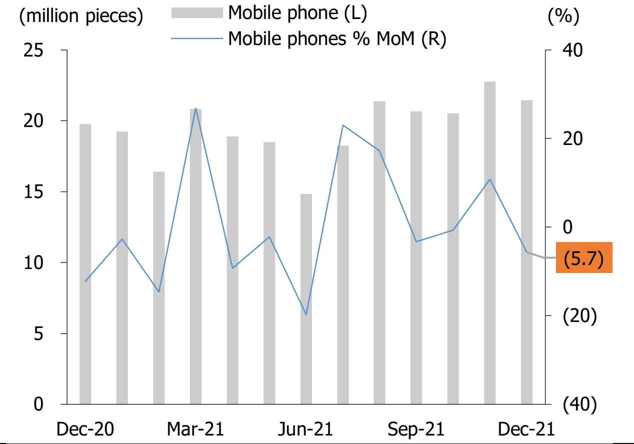


Source: GSO, KIS

Electronics industry:

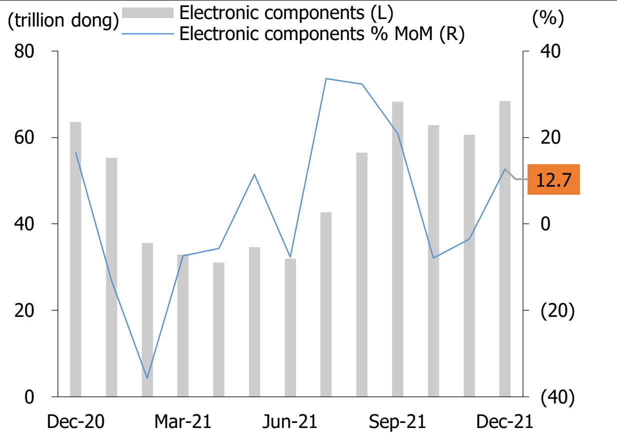
Production in the electronics industry remained highly stable and solid, also thanks to strong demand from key export markets in the holiday season. Besides, we saw the supply of this industry, particularly the labor conditions, continued to be stable in key manufacturing hubs in Northern provinces.

Figure 30. Production of mobile phones



Source: GSO, KIS

Figure 31. Production of electronic components



Source: GSO, KIS

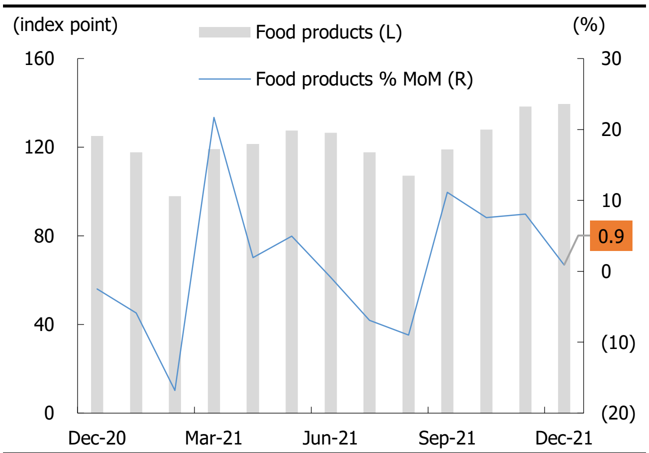
Food and beverage industries:

As domestic services activities almost reopen in most places, domestic demand for food and beverage products are recovering and pushing these industries to grow. For the foods industry, it is also benefiting from the reopening of the services industry in foreign countries.

From the supply side, production activities were also backed by further improved labor conditions in these industries.

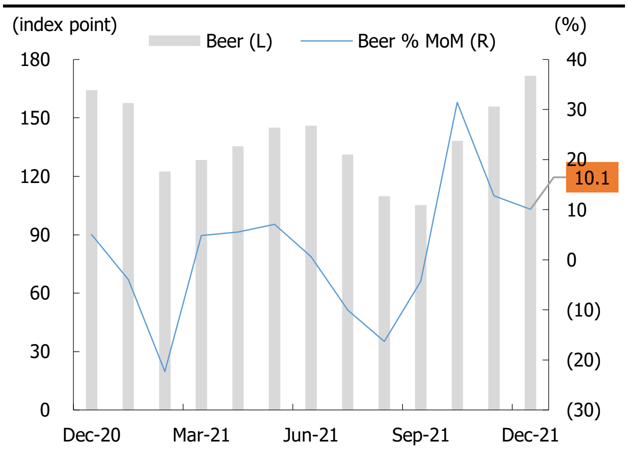
As a result, the beverage industry recovered in four straight months, at two-digit paces in the nearest 3 months, pushing the production level of this record high to the highest level on record. Similarly, recovered domestic demand & increasing foreign demand also pushed food production to its new records in November and December.

Figure 32. Production of food products



Source: GSO, KIS

Figure 33. Production of beer



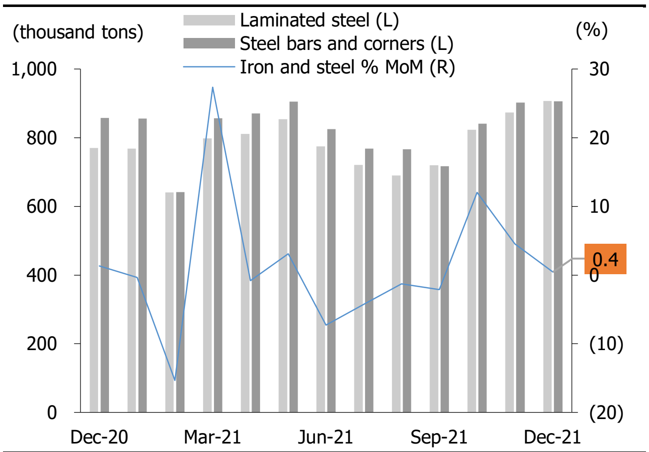
Source: GSO, KIS

Construction materials industry:

Export demand for construction-material products is losing momentum in recent months, affected by plunging demand from China due to the ongoing housing crisis. However, the slowdown in export demand is partly offset by increasing domestic demand, as the government allows the construction activity to reopen after a prolonged lockdown.

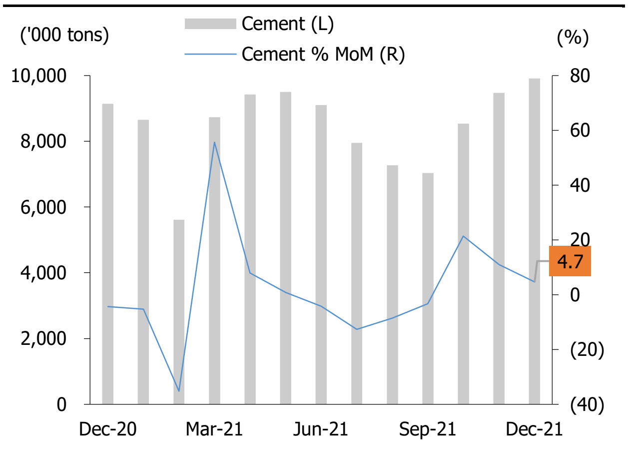
Overall, the construction material industries continued to stay at high levels in December and 4Q21, led by the strong rebound in the domestic demand.

Figure 34. Production of steel products



Source GSO, KIS

Figure 35. Production of cement



Source: GSO, KIS

PREDICTION:

In our view, 2022 will lead the industrial sector into a new path, with a return of domestic demand as a new growth driver. We see supply-chain bottlenecks no longer remain an existential risk to production activities (with very-high vaccination and the government's stance towards full normalization of economic activity), while export demand has less room to lead the industrial growth in the third year of global recovery. Instead, as the impact of the pandemic is largely mitigated in Vietnam at the current time, domestic demand would likely benefit from: (1) pent-up demand effect (in the domestic market); (2) rebound in new domestic investment demand; and (3) great potential from the upcoming fiscal-monetary support program.

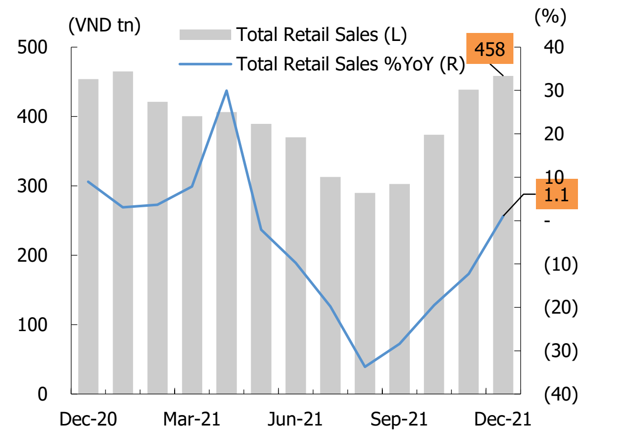
In early 2022, we expect domestic demand-oriented industries, including the food & beverage and the oil & gas industries, would further recover and contribute mainly to the growth momentum of the industrial sector. Furthermore, we also expect robust export demand continues to be a major force driving the export-oriented industries, including the electronics and the textile & garment & footwear groups

IV. Retail sales to recover

The retail sales improved further amid loosening restrictions

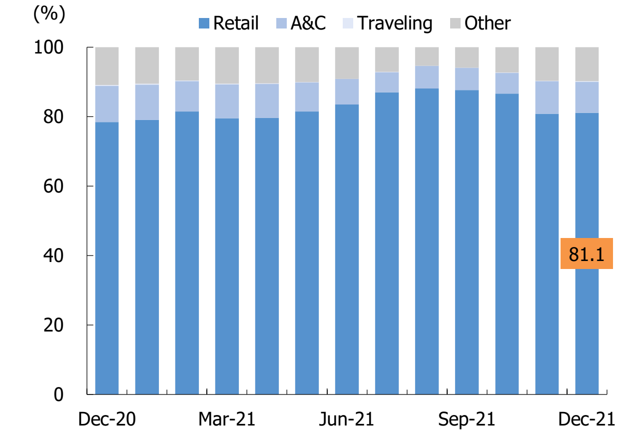
Retail sales in December climbed to the year-high amid the shopping season and the confidence recovery of domestic consumers. Specifically, the total retail sales reached USD458.46tn, which is 5.47%-higher than the previous month. Moreover, current total sales also exceeded that in the same period of 2020, marking the first time the turnover of retail businesses returns to expansion territory after seven consecutive months of contraction. The impressive improvement in retail sales was expected to create momentum for 1M2022. Regarding the structure, the retailing value kept overwhelming, with the largest share at 81.08% of the total, while accommodation and catering (A&C) and traveling sectors jointly consisted of 9.08% of total revenue. However, the restructure of total revenue was becoming more similar to the pre-lockdown pattern where low restrictions on mobility allowed the consumption of A&C services to happen more conveniently.

Figure 36. Monthly retail sales



Source: GSO, KIS

Figure 37. Components of retail Sales

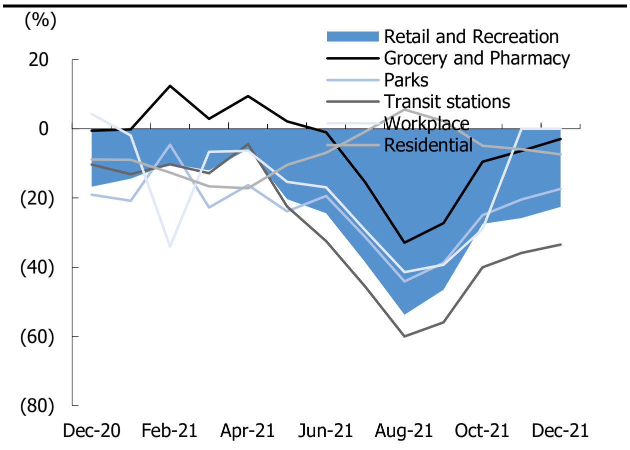


Source: GSO, KIS

PREDICTION:

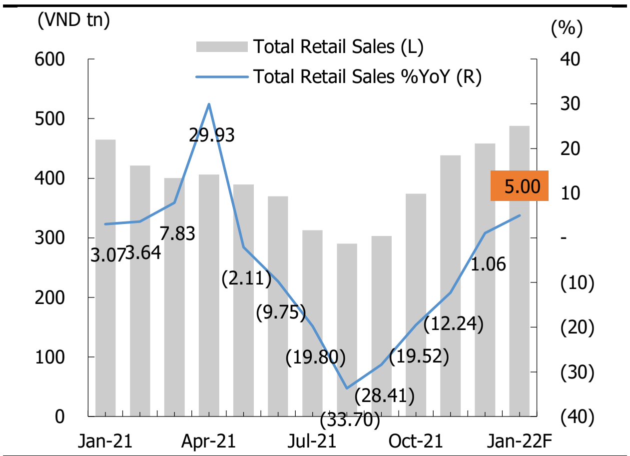
High vaccination allows the government to continue pursuing Resolution 12 of preventing COVID-19. Therefore, the number of business lines that re-open tends to increase. Furthermore, given the impressive recovery in December 2021, demand for accommodation and catering services would be significantly higher in the pre-Tet period. Thus, we predict the retail sales to grow by 5.00% in the first month of 2022.

Figure 38. Google mobility



Source: Google, KIS

Figure 39. Retail sales forecast in the next month



Source: GSO, KIS

V. CPI to be higher

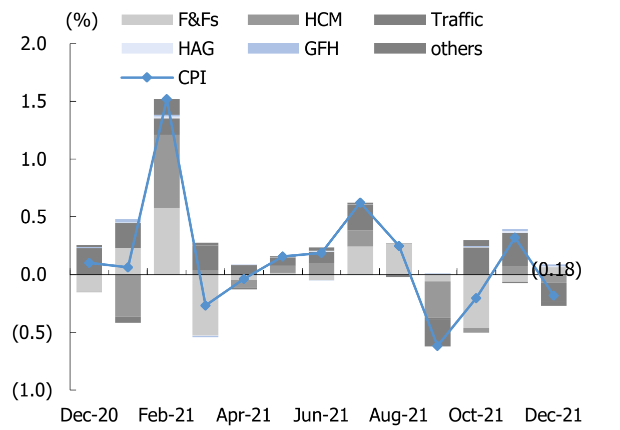
Traffic index mainly drove CPI this month

According to GSO, CPI returned into a reduction this month due to a lower traffic index despite the food and foodstuff index (F&Fs) showing an early signal of a seasonal increase. In more detail, the traffic index retreated by 1.71% MoM with lower gasoline prices as the main reason. In December, MoIT made two adjustments to reduce E5RON92 and RON95-III by 6.70% MoM and 8.78% MoM to post VND22,082 and VND22,801 per liter, resulting in the reduction in traffic index. Besides, housing and construction materials (HCM) and education services contributed to the overall price's decline this month by reducing by 0.45% MoM and 0.50% MoM. These two elements jointly subtracted 10bps from the monthly change of CPI.

On the opposite direction, F&Fs rose after a decreasing streak of 3 months and served as the early signal of the upcoming seasonal pressure. F&Fs rose by 0.17% MoM and contributed 6bps to the CPI's increase with the rebound in live pork price this month.

Totally, CPI declined by 0.18% compared the previous month and increases accordingly by 1.81% compared to the same period last year.

Figure 40. Monthly CPI change and its contributor



Source: GSO, KIS

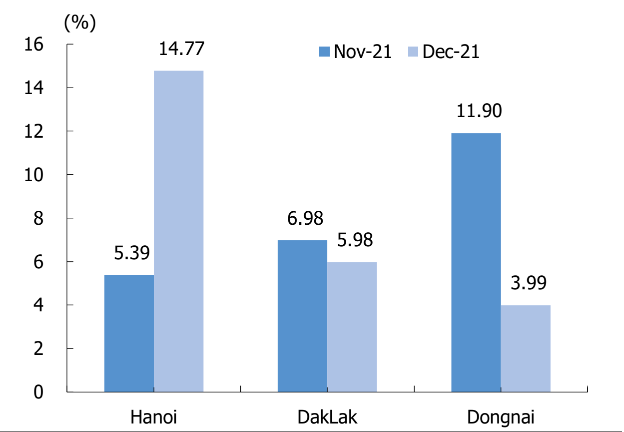
Table 1. Monthly CPI change by item

Item	Weight (%)	% MoM	% YoY
Food and foodstuff	36.12	0.17	0.51
Beverage and cigarette	3.59	0.20	2.50
Garment, Footwear, hat	6.37	0.22	1.07
Housing and construction materials	15.73	(0.45)	1.04
Household appliances and goods	7.31	0.17	1.12
Medicine and health care	5.04	0.02	0.24
Traffic	9.37	(1.71)	15.81
Postal services & Telecommunication	2.89	(0.01)	(0.72)
Education	5.16	(0.50)	(4.28)
Culture. entertainment and tourism	4.29	0.05	(0.20)
Other goods and services	3.3	0.14	1.42
Consumer Price Index		**(0.18)**	**1.81**

Source: GSO, KIS

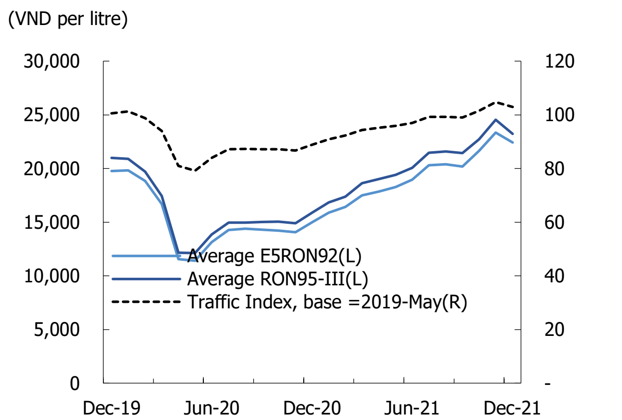
Generally, live pork increased further amid the rising demand for eating outside in the pre-Tet period, mainly driving the F&Fs up this month. In more detail, we see that prices of live pork in provinces with large herd sizes, such as Ha Noi, Dak Lak, and Dong Nai, extend the upward momentum in the previous month with increases of 14.77% MoM, 5.98% MoM, and 3.99% MoM, respectively.

Figure 41. Monthly change in live pork price by province



Source: GSO, KIS

Figure 42. Average petroleum prices and traffic index



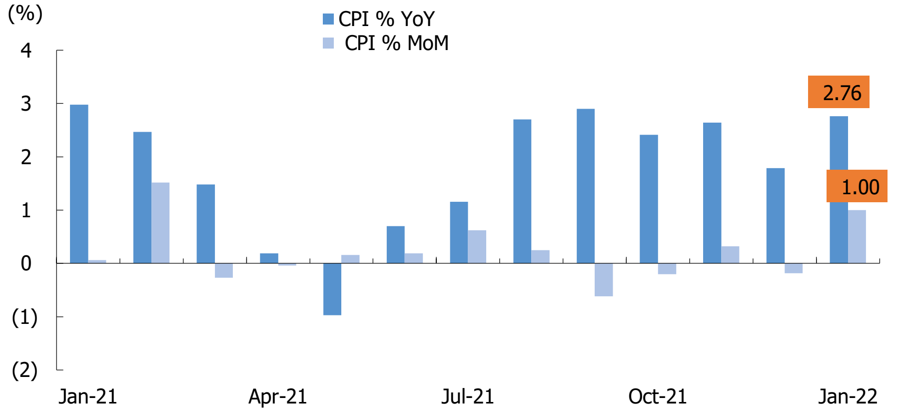
Source: GSO, KIS

Regarding traffic index development, MoIT made two adjustments to reduce the gasoline price amid a lower crude price, resulting in average prices of E5RON92 and RON95-III to reduce by 3.94% MoM 5.33% MoM this month.

PREDICTION:

We predict the CPI to be higher next month under the upward pressures on F&Fs and traffic index. Demand for food and foodstuff, especially pork meat, generally tend to be higher before Tet, and the traffic index also is expected to increase along with the upturn of gasoline price. Therefore, we forecast the CPI to increase by 1.30% MoM or 2.76% YoY in January 2022.

Figure 43. CPI forecast in January 2022

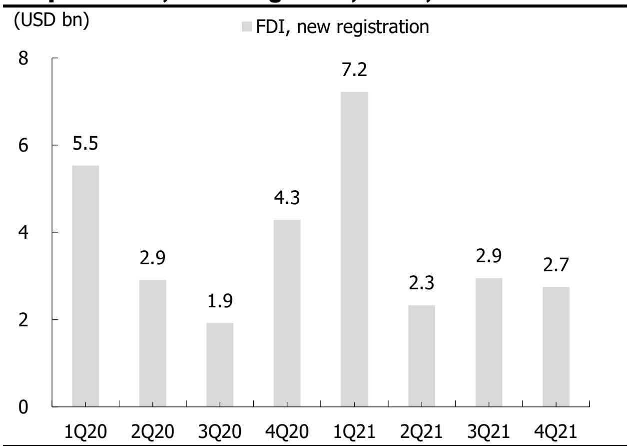


Source: KIS, GSO

VI. FDI to further recover in the reopening phase

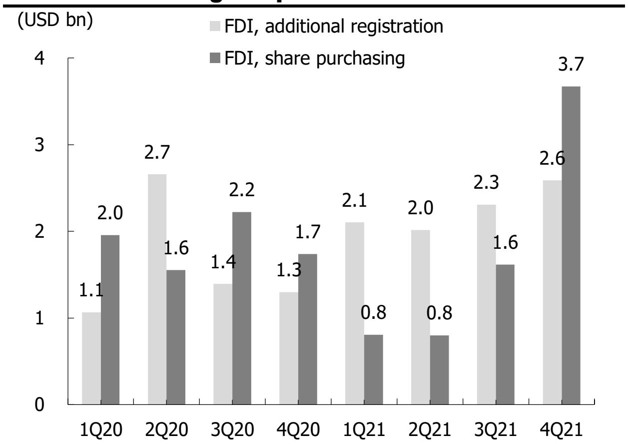
From From the latest update from the Ministry of Planning and Investment, FDI figures highlighted some noteworthy developments in December as well as in the last quarter. Those developments are linked to the ongoing investment trend during the pandemic time, the trend of switching investing in new businesses to existing businesses. Data showed that foreign investment into existing projects or via M&A activity was more preferred compared to newly registered FDI.

Figure 44. FDI new registration slowed down during the pandemic, including 2Q20, 3Q21, and 4Q21



Source: MPI, KIS

Figure 45. FDI investing into existing businesses accelerated during the pandemic



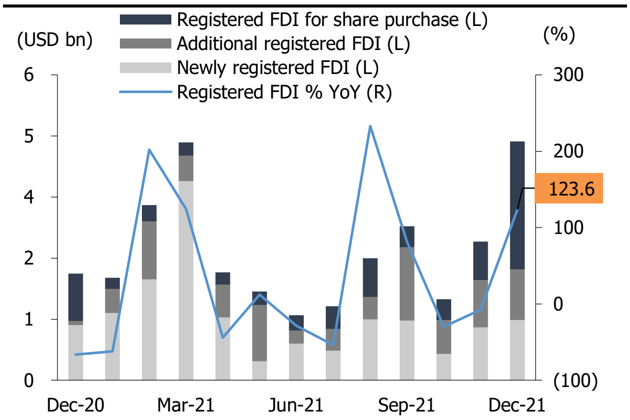
Source: MPI, KIS

To be more specific, we saw massive investment inflows via share purchases activity, including M&A activity, in the last month of 2021. Accordingly, the registered capital for foreign share-purchasing value reached a 2-year high (at USD2.5bn, up 123.6% YoY), which is even greater than the amount in both 2Q21 and 3Q21 together. Next, the foreign investment into existing projects remained significantly higher than in the previous period, as additionally registered capital reached above USD1bn for 3 consecutive months (at

USD1.0bn in December, up 1124.8% YoY). Meanwhile, the new FDI registration continued to be subdued in the month (at USD1.2bn, up 9.2% YoY). As a result, thanks to the huge inflows from share-purchasing activity, total registered FDI in December reached the highest level in the 2020 – 2021 period (at USD4.7bn, up 123.6% YoY).

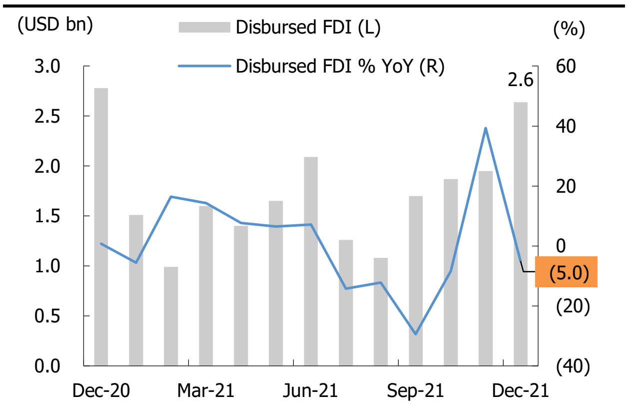
The disbursement activity also accelerated in December, continuing fast-recovery trend since September. For December, it hit a one-year high when recording more than USD2.6bn, although slightly lower than its record peak of USD2.8bn in December 2020, down by 5.0% YoY.

Figure 46. Monthly registered FDI



Source: MPI, KIS

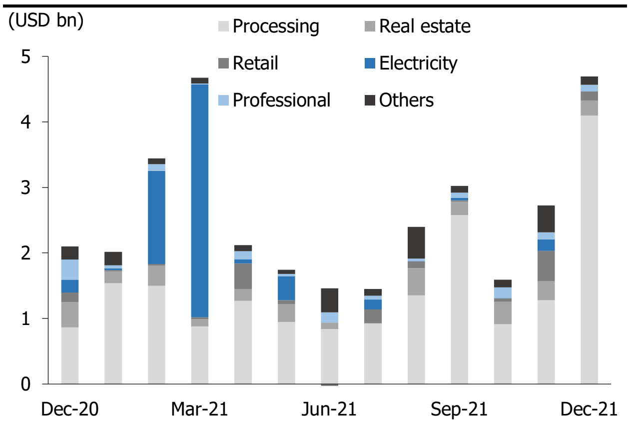
Figure 47. Monthly disbursed FDI



Source: MPI, KIS

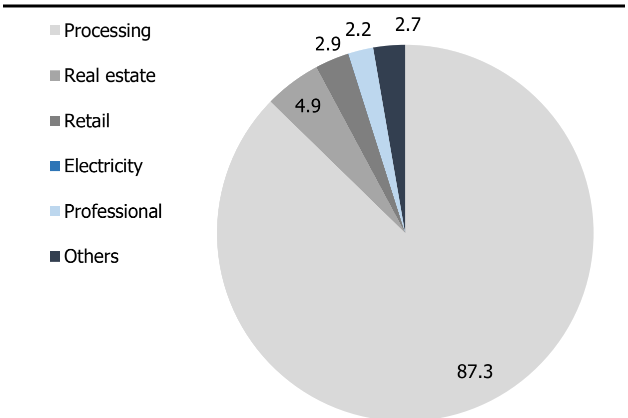
FDI registered into the manufacturing sector was booming in December, climbing to the highest level in 34 months (USD4.10bn), accounting for 87.3% of total registration. The surge in new FDI inflows to the manufacturing sector was likely partly reflecting that the registration was delayed in 3Q21 and 4Q21 until the last month of 2021. On the contrary, FDI inflows into other sectors were muted in the month, in which only the real estate sector posted more than USD0.2bn in registered capital (USD0.23bn, 4.9% share).

Figure 48. Monthly registered FDI by sector



Source: MPI, KIS

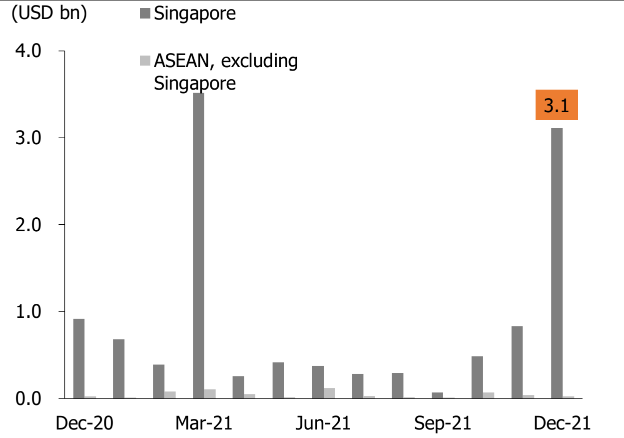
Figure 49. Structure of registered FDI



Source: MPI, KIS

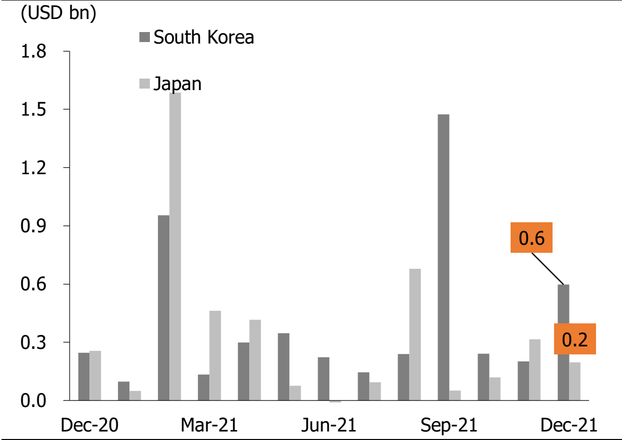
Regarding FDI by partner country, Vietnam received the largest FDI inflows from ASIA-countries in the month than from other regions. Singapore became the largest investor in the month with USD3.1bn registered capital (66.3% share), followed by South Korea with USD0.6bn (12.7% share). FDI inflows from Japan, China, and Hong Kong, posted just about USD0.2bn for each, while the figures for other countries and regions were insignificant in December.

Figure 50. FDI inflows from ASEAN partners



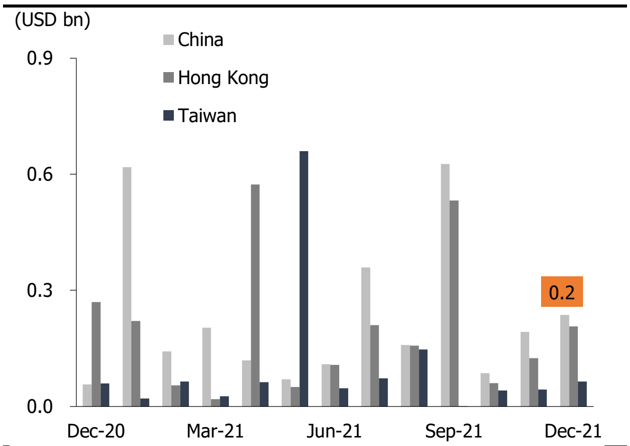
Source: MPI, KIS

Figure 51. FDI inflows from South Korea and Japan



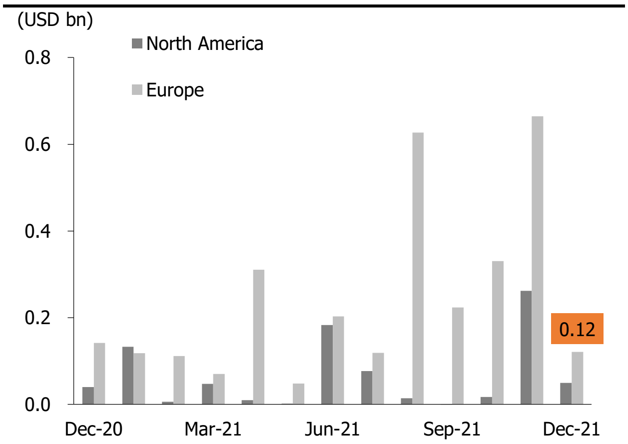
Source: MPI, KIS

Figure 52. FDI inflows from South Korea and Japan



Source: MPI, KIS

Figure 53. FDI inflows from EU and North America

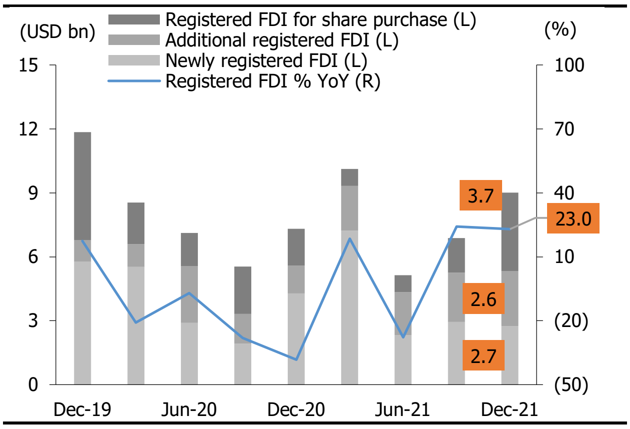


Source: MPI, KIS

Looking at a broader picture, quarterly data was also showing a similar trend in FDI developments, when both FDI registering into existing projects and FDI share purchasing was temporarily replacing new FDI to be the main drivers for the foreign investment. For 4Q21, while the former was reaching about the highest level since 2017 (at USD2.6bn, up 99.4% YoY), the latter also hit a 2-year high since 2020 (at USD3.7bn, up 111.3% YoY). On the other hand, FDI new registration finished 4Q21 with only USD2.8bn, down 35.9% YoY.

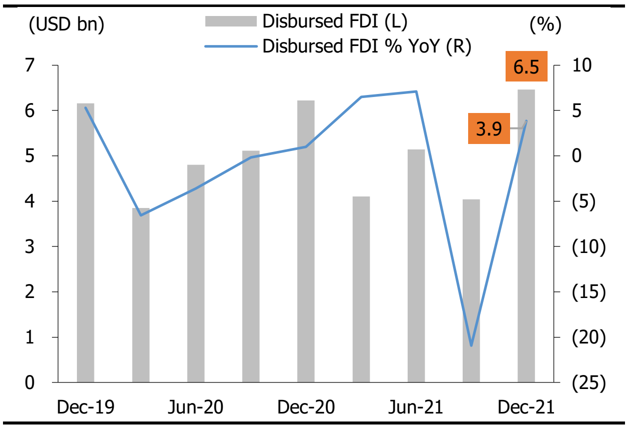
To sum up, total registered FDI reached about USD9.0bn in the early reopening phase in 4Q21, up 23.0% Yoy. On the other side, foreign disbursement amount was hitting the highest level on record (at USD6.5bn, up 3.9% YoY).

Figure 54. Quarterly registered FDI



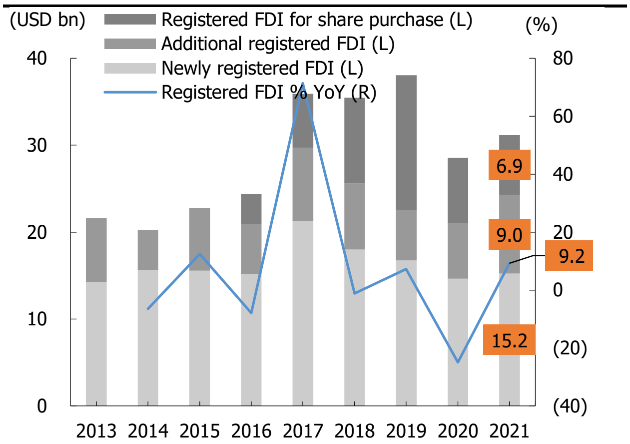
Source: MPI, KIS

Figure 55. Quarterly disbursed FDI



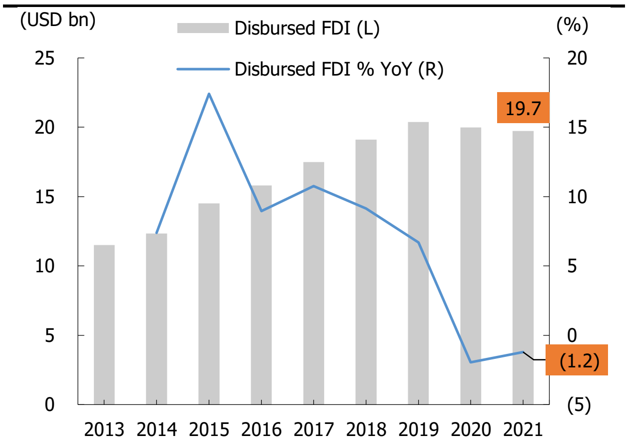
Source: MPI, KIS

Figure 56. Yearly registered FDI



Source: MPI, KIS

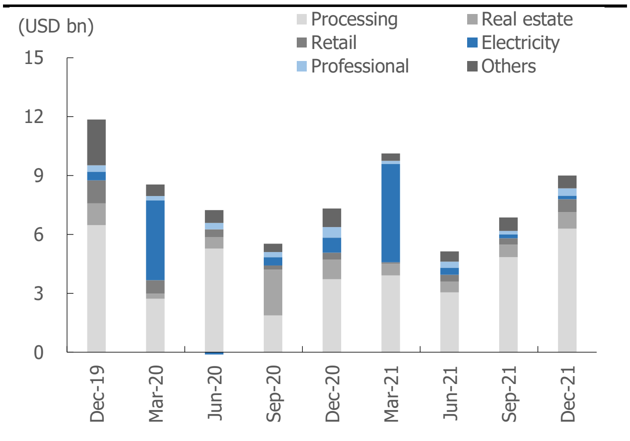
Figure 57. Yearly disbursed FDI



Source: MPI, KIS

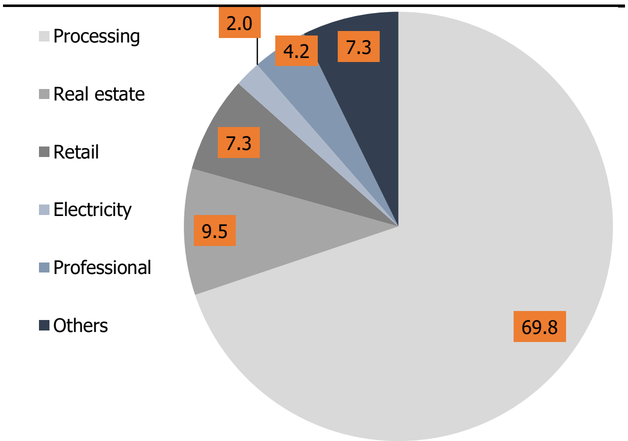
By sector, FDI inflows into the manufacturing sector reached a 2-year high in 4Q21 (at USD6.3bn, up 69.2% YoY, 70% share), accelerating in the last 2 months of 2021. FDI registered into Real estate and Retail sectors also improved in the last quarter, as the former reached a 1-year high (at USD0.9bn, down 14.4% YoY, 9.5% share) and the latter hit the highest level since 2020 (at USD0.7bn, up 7.3% YoY, 7.3% share). With most government's support for alternative-energy investment coming due 2021 (Fixed feed-in tariff price mechanism for several alternative-energy investments), FDI investment into electricity production & distribution sector was significantly quiet in 4Q21 (at only USD0.2bn, down 77.2% YoY, 2.0% share).

Figure 58. Quarterly registered FDI by sector



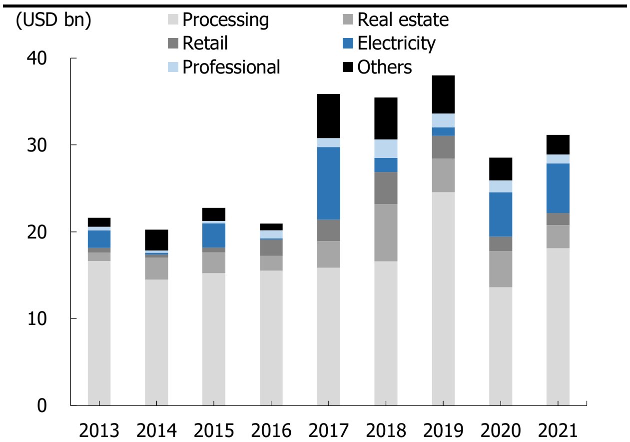
Source: MPI, KIS

Figure 59. Structure of registered FDI (4Q21)



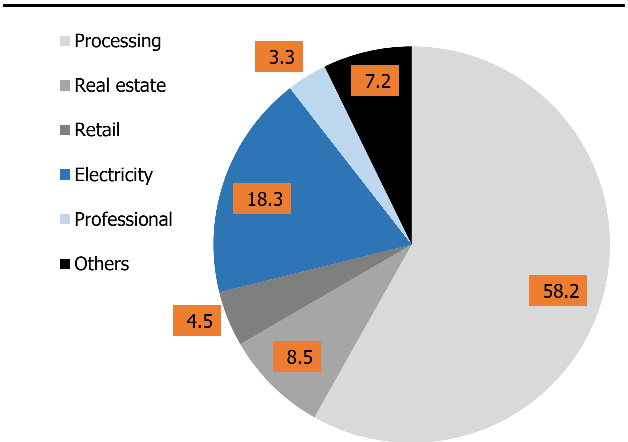
Source: MPI, KIS

Figure 60. Yearly registered FDI by sector



Source: MPI, KIS

Figure 61. Structure of registered FDI (2021)



Source: MPI, KIS

Table 2: Key FDI projects in 2021

Project	Sector	Registered investment amount (USD mn)	Partner countries	Location	Date of registration
Long An I & II LNG Power Plants	Electricity production & distribution	3,100.0	Singapore	Long An	19th March 2021
LG Display Hai Phong	Manufacturing	750.0	South Korea	Hai Phong	4th February 2021
LG Display Hai Phong	Manufacturing	1,400.0	South Korea	Hai Phong	30th August 2021
Omon II Thermal Power Plant	Electricity production & distribution	1,310.0	Japan	Can Tho	22th January 2021
Vina Kraft Paper Plant	Manufacturing	611.4	Japan	Binh Duong	23rd July 2021
Far Eastern Polyester Factory	Manufacturing	610.0	Taiwan	Binh Duong	13rd May 2021

Source: MPI, KIS

PREDICTION:

From our viewpoint, the developments in both new FDI inflows and the FDI disbursement in 4Q21 were much better than our initial expectation at the time Vietnam's economy is suffering the hardest hit from the pandemic, including severe disruptions in the production & service sectors and a broken supply chain in the third quarter. It is a signal that foreign investors remain confident in Vietnam's long-term outlook through the worst time.

From our view, 2022 would be a turning point for FDI after 2 years of pandemic dampening investment activity, following the accelerating reopening progress globally and in Vietnam. FDI would be greatly benefiting from: (1) the reopening of international mobility from/to Vietnam and globally, as Vietnam's Civil Aviation Authority plans to partly reopen international flights from January 2022 and fully reopen from July 2022; (2) brighter economic outlook thanks to the upcoming fiscal-monetary support package & fast economic recovery in the early reopening & high vaccination rate (supporting the government's stance of fully reopening the economy); (3) stable fx conditions and well-immuned economy against the global trend of tightening monetary conditions (thanks to surplus current account balance and foreign-exchange reserves; relatively strong levels of public debt/GDP and debt payment/GDP; well-controlled inflation conditions under government's control of the majority of goods and services in CPI's basket if necessary).

Macro scorecard

(USD bn, USD, %, % YoY)

	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	1Q21	2Q21	3Q21	4Q21	2018	2019	2020	2021
Real GDP growth			(6.02)			5.22	4.65	6.61	(6.02)	5.22	7.08	7.03	2.91	2.58
Registered FDI	1.45	2.40	3.02	1.59	2.73	4.69	10.13	5.14	6.88	9.01	35.47	38.02	28.53	31.15
GDP per capita											2,457	2,604	2,656	
Unemployment rate			3.98			3.56	2.42	2.62	3.98	3.56	2.21	2.25	2.48	3.22
Export	27.87	27.23	27.01	28.87	31.87	34.52	78.40	79.95	82.12	95.26	243.5	263.6	282.7	335.7
Import	29.11	27.34	26.67	26.13	30.61	31.98	75.57	83.70	83.12	88.72	236.7	254.4	263.0	331.1
Export growth	12.03	(1.71)	(0.50)	5.94	26.27	24.82	23.42	34.74	2.99	20.43	13.19	8.16	7.02	18.74
Import growth	31.75	20.34	10.17	7.69	23.96	14.59	26.60	45.79	18.85	15.42	11.01	7.41	3.81	25.90
Inflation	2.64	1.79	2.06	1.77	2.10	1.81	0.30	2.67	2.51	1.89	3.54	2.79	3.24	1.84
USD/VND	22,947	22,784	22,761	22,752	22,729	22,790	23,076	23,020	22,761	22,790	23,175	23,173	23,126	22,790
Credit growth	6.92	7.45	7.88	8.76	10.10	12.97	2.95	6.44	7.88	12.97	10.77	13.75	12.17	12.97
10Y gov't bond	2.19	2.06	2.14	2.15	2.09	2.11	2.40	2.21	2.14	2.11	5.07	3.37	2.01	2.11

Source: GSO, Bloomberg, FIA, IMF

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