

# Economic Flash

## GDP bounces back into growth

### Services sector mainly lifts GDP growth

According to GSO, GDP growth rebounded to 2.62% YoY after sliding to the record-low level since the global financial crisis. Given that GDP at constant 2010 price to expand at the same pace in the next quarter, the growth rate in this period did not surprise the market as it is quite near to most current expectations such as World Bank, IMF, and ADB. Also, the figure tends to be in line with the authority's expected range at 2%-2.5%.

### Trade grows at a double-digit rate

GSO's estimates show considerable growth in trade value in September 2020 as export and import rose by 18.02% YoY and 11.63% YoY, posting USD27.50bn and USD24.00bn. Consequently, the trade balance recorded a one-year-high surplus at USD3.5bn.

### Investment plans are on hold amid uncertainties

In September, FDI inflows to the Vietnam economy remained quiet, especially a slowdown that was seen clearly from newly and additionally registered FDI numbers. It is apparent that the COVID-19 pandemic was the main cause as it, on the one hand, ruins the global investors' confidence, and the government also requires strict restrictions on global mobilization to Vietnam to halt the outbreak.

### Industrial growth keeps steady pace

In September, the industrial production marked a five-month recovery since April, maintaining roughly pre-crisis levels since July. Specifically, IIP was growing sustainably by 2.3% MoM and 3.8% YoY, and this growth in September was driven by both domestic-demand and foreign-demand industries.

### KIS leading economic index

(USD bn, %, % QoQ, % YoY)

	1Q20	2Q20	3Q20	4Q20F	2019	2020F	2021F
GDP	3.82	0.36	2.62	5.03	7.02	2.50	5.94
Trade balance	1.73	0.57	7.41	5.06	10.42	7.94	1.77
CPI	4.87	3.17	3.81	3.09	5.23	3.09	2.41
Discount rate	3.50	3.00	3.00	3.00	4.00	3.00	3.00
VND/USD	23,264	23,206	23,188	23,252	23,231	23,255	23,246
US GDP	(4.80)	(34.20)	NA	7.90	2.3	(5.70)	3.90
China GDP	(6.80)	1.10	NA	6.00	6.10	1.80	8.00

Source: KIS

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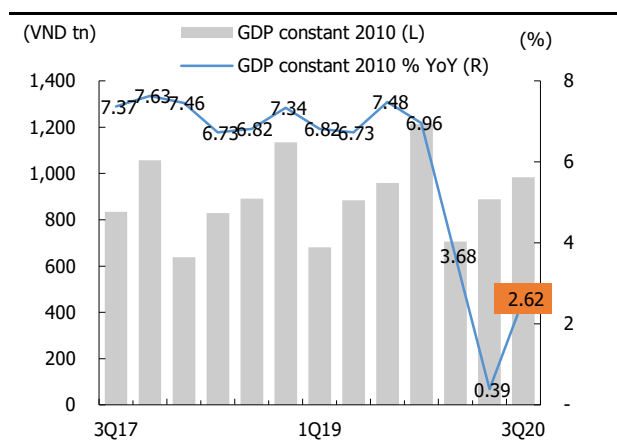
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# I. Services sector mainly lifts GDP growth

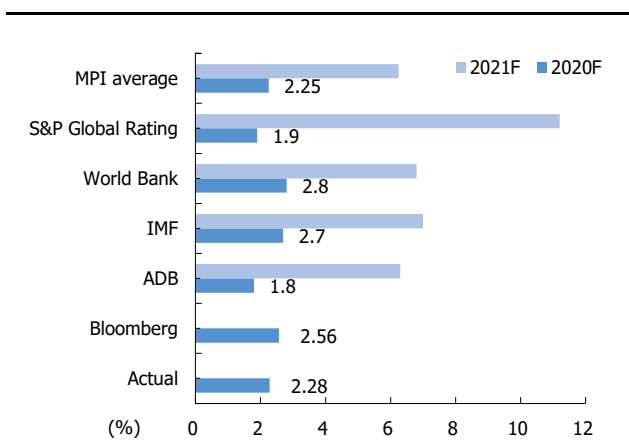
According to GSO, GDP growth rebounded to 2.62% YoY after sliding to the record-low level since the global financial crisis. Given that GDP at constant 2010 price to expand at the same pace in the next quarter, the growth rate in this period did not surprise the market as it is quite near to most current expectations such as World Bank, IMF, and ADB. Also, the figure tends to be in line with the authority's expected range at 2%-2.5%.

**Figure 1. Vietnam Real GDP**



Source: KIS, GSO

**Figure 2. Vietnam GDP growth and expectations**

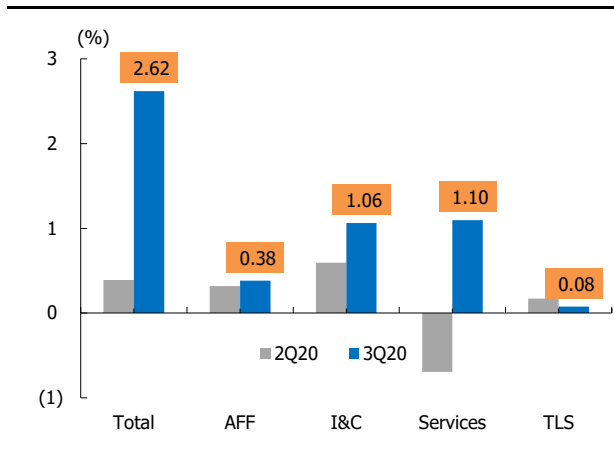


Source: GSO, World Bank, IMF, S&P Global Rating, ADB, Bloomberg, KIS, MPI, GSO

Regarding sectoral contribution, most of the GDP's components improved considerably in this quarter except for product taxes less subsidies on production (TLS). The services sector's growth was the most prominent as turning from reduction at 1.93% YoY in the previous period to expansion at 2.75% YoY in this period and consequently contributed 1.10 % to economic growth.

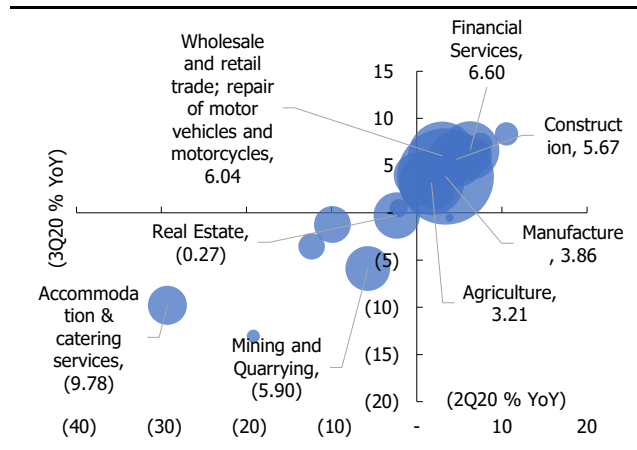
Looking deeper at the sub-sectors, improvements in major industries such as manufacture, wholesale, retails and motor repair (WRM), agriculture, financial services, and constructions were determinants of the rebound in economic growth. Additionally, the downward momentum in accommodation and catering services (A&C) shrink significantly from -29.30% in 2Q20 YoY to -9.78% in 3Q20.

**Figure 3. Vietnam GDP growth by sector**



Source: KIS, GSO

**Figure 4. Vietnam GDP growth by sub-sector**

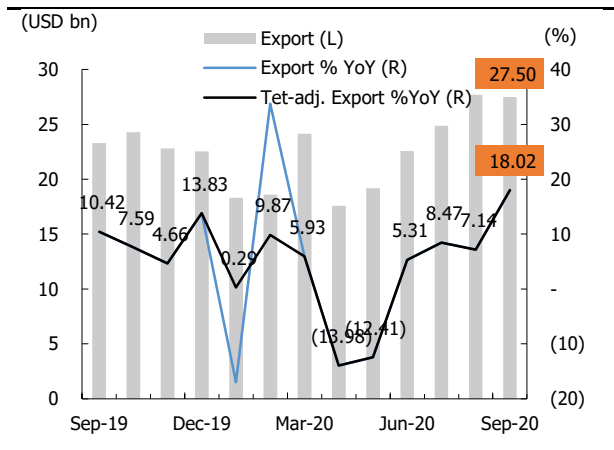


Source: KIS, GSO

## II. Trade grows at double digit rate

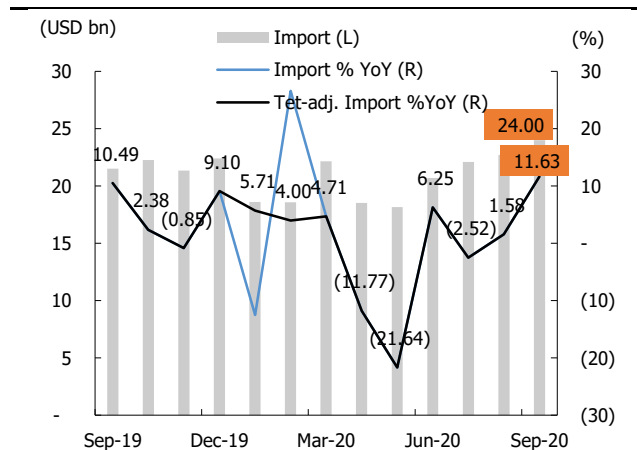
GSO's estimates show considerable growth in trade value in September 2020 as export and import rose by 18.02% YoY and 11.63% YoY, posting USD27.50bn and USD24.00bn. Consequently, the trade balance recorded a one-year-high surplus at USD3.5bn.

**Figure 5. Vietnam monthly export**



Source: KIS, GSO

**Figure 6. Vietnam monthly import**

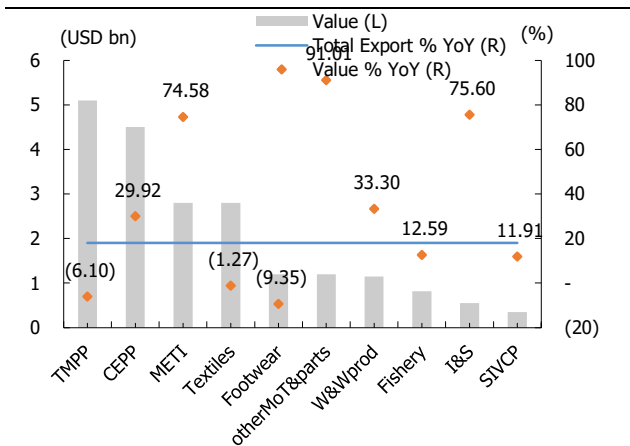


Source: KIS, GSO

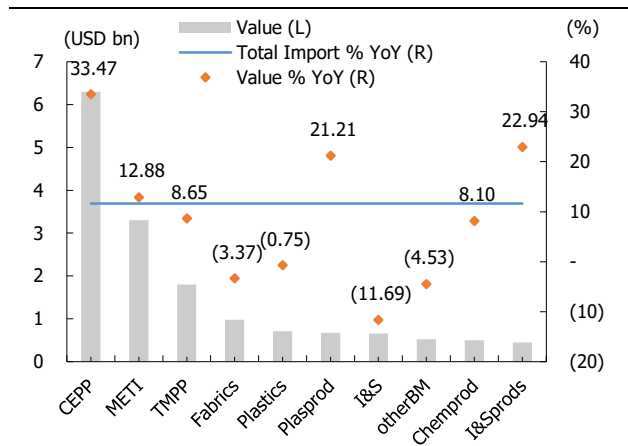
In the export structure, major export items (accounting for around 69% of items) increased compared to last year. Notably, the computer, electrical products, spare parts, and components (CEPP), machine equipment tools and instruments (METI), other means of transportation, parts and accessories thereof (otherMoT&parts), Wood and wooden products (W&Wprod) and soared by 29.92% YoY, 74.58% YoY, 91.01% YoY, 33.30% YoY, and 75.60% YoY, pushing the overall growth up by 445 basis points (bps), 513bps, 245bps, 123 and 102bps, respectively. On the contrary, telephones, mobile phones and parts (TMPP), textiles and footwear declined by 6.10% YoY, 1.27% YoY, and 9.53% YoY, respectively. This group dragged the overall growth down by 211bps and partly hindered the expansion in this period.

Most of the import items also similarly witnessed expansions as export items. The CEPP, METI, TMPP, and plastic products rose significantly at 33.47% YoY, 12.88% YoY, 8.65% YoY, and 21.21% YoY 735bps and added 175bps, 67bps, and 55bps respectively. In the opposite, fabrics and iron and steel (I&S) witnessed considerable reductions at 3.37% YoY and 11.69% YoY, subtracting 57bps to the overall import growth.

**Figure 7. Vietnam top 10 export items**



**Figure 8. Vietnam top 10 import items**



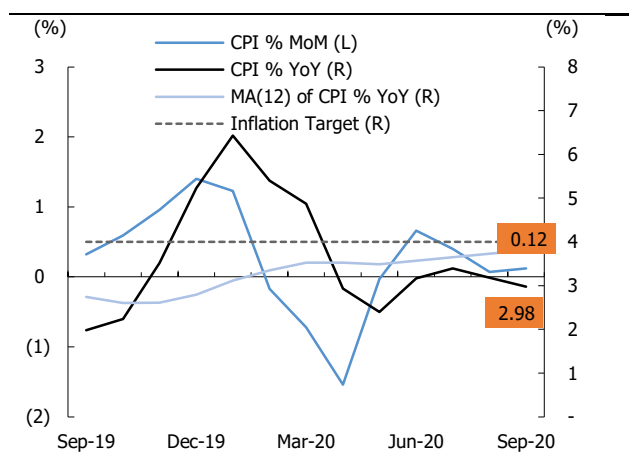
Source: KIS, GSO

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.

### III. Education price pushes CPI

The Consumer Price Index (CPI) modestly increased by 0.12% compared to the previous month, extending the recovery path to four-consecutive-months. However, the yearly change in CPI tended to slow as current monthly change was lower than that on the same period in 2019. Specifically, CPI increased 2.98% YoY in September 2020, 20bps-lower than August 2020. In addition, 12-month rolling inflation rate posted 3.81%, 19bps-lower than the Government target rate of 4%. Education and housing and construction materials (HCM) sub-indices rose by 2.29% MoM and 0.62% MoM and explain virtually variation in CPI this period.

**Figure 9. CPI Monthly Change**



Source: GSO, KIS

**Table 1. Inflation by sectors in July 2020**

Item	Weight (%)	% MoM	% YoY
Food and foodstuff	36.12	(0.31)	10.79
Beverage and cigarette	3.59	0.05	1.36
Garment, Footwear, hat	6.37	0.10	0.53
Housing and construction materials	15.73	0.62	0.94
Household appliances and goods	7.31	(0.06)	0.97
Medicine and health care	5.04	0.01	0.60
Traffic	9.37	(0.12)	(12.57)
Postal services & Telecommunication	2.89	(0.02)	(0.55)
Education	5.99	2.29	2.84
Culture, entertainment and tourism	4.29	(0.20)	(1.87)
Other goods and services	3.3	0.02	2.35
<b>Consumer Price Index</b>		<b>0.12</b>	<b>2.98</b>

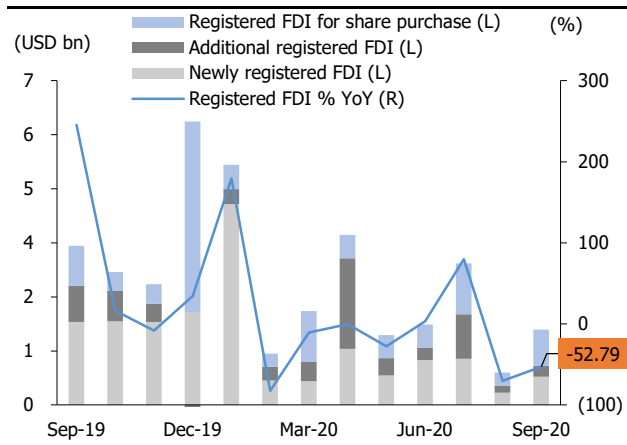
Source: GSO, KIS

## IV. Investment plans are on hold amid uncertainties

In September, FDI inflows to the Vietnam economy remained quiet, especially a slowdown that was seen clearly from newly and additionally registered FDI numbers. It is apparent that the COVID-19 pandemic was the main cause as it, on the one hand, ruins the global investors' confidence, and the government also requires strict restrictions on global mobilization to Vietnam to halt the outbreak.

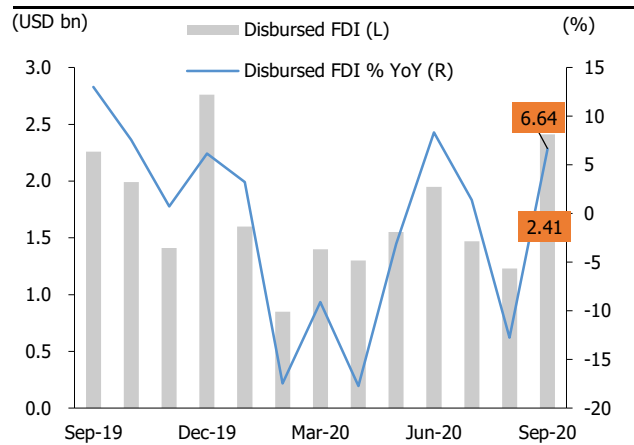
More specifically, total registered FDI recorded just USD1.67bn (-52.79% YoY) in the month, in which the figures for newly registered FDI and additional registered capital were significantly low at USD0.63bn (-66.09% YoY) and USD0.24bn (-69.83% YoY), and that for share purchase reached USD0.80bn (-9.95% YoY). Oppositely, FDI disbursement started accelerating as jumping up to USD2.41bn (6.64% YoY), which is the highest level in 2020.

**Figure 10. Registered FDI**



Source: MPI, KIS

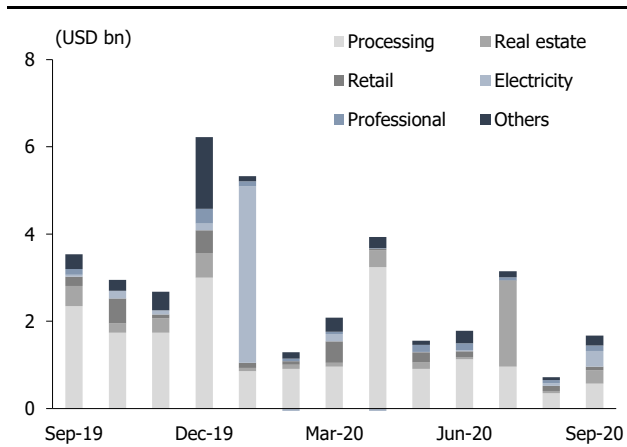
**Figure 11 Disbursed FDI**



Source: MPI, KIS

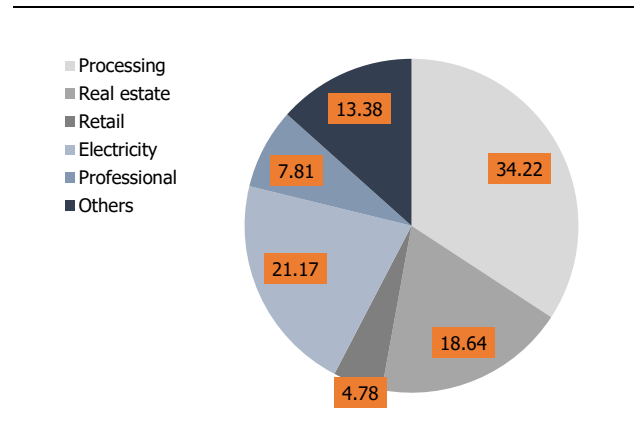
Processing, electricity, and real estate sectors were receiving the largest pieces of FDI inflows in the month as the capital registered into these sectors reached USD0.57bn (34.22% of total registered FDI), USD0.35bn (21.17%), and USD0.31bn (18.64%), respectively. Data also showed that the retail sector was impacted the most as the FDI registered in this sector was only USD0.08bn.

**Figure 12. Registered FDI by sector**



Source: MPI, KIS

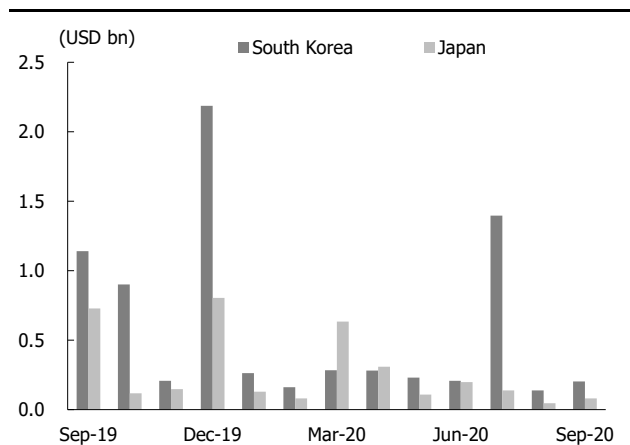
**Figure 13. Structure of registered FDI in 2Q20**



Source: MPI, KIS

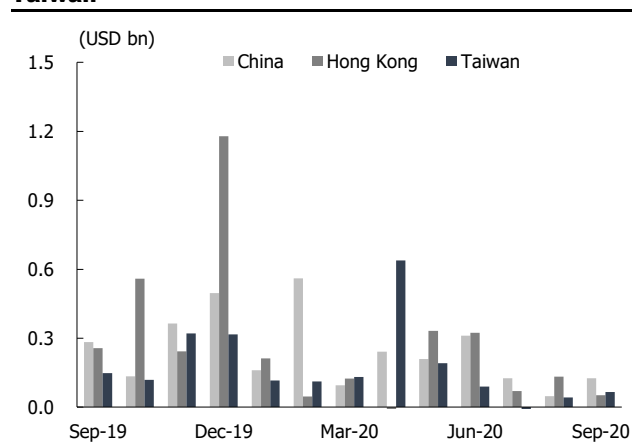
On the other hand, investment flows from familiar names, including China, Hong Kong, Taiwan, and Japan, was extremely low, posting USD0.13bn, USD0.05bn, USD0.07bn, and USD0.08bn, respectively. FDI from South Korea investors also remained significantly weak, at about USD0.20bn.

**Figure 14. FDI inflows from South Korea, Japan**



Source: MPI, KIS

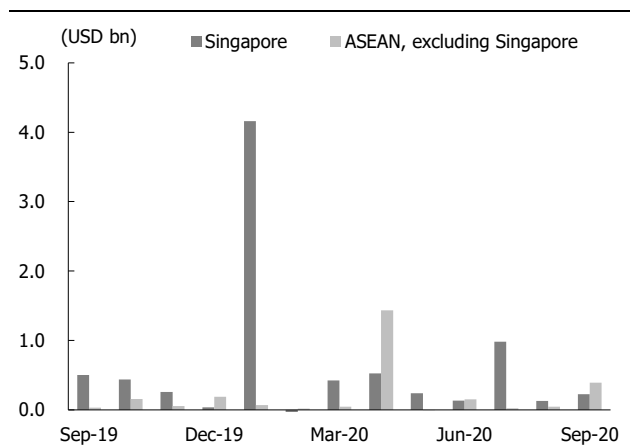
**Figure 15. FDI inflows from China, Hong Kong, Taiwan**



Source: MPI, KIS

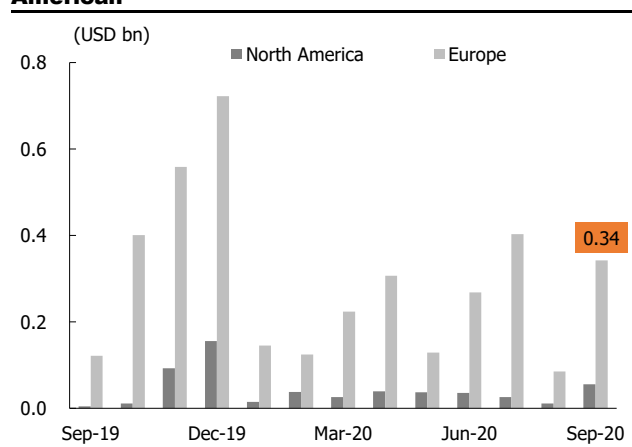
FDI inflows from ASEAN and European partners were less severely interrupted. Accumulatively, registered capital from ASEAN investors recorded a total of USD0.62bn, in which USD0.23bn was coming from Singapore. Meanwhile, that from European nations sum up to USD0.34bn, while the number for North America was insignificant.

**Figure 16. FDI inflows from ASEAN partners**



Source: MPI, KIS

**Figure 17. FDI inflows from Europe and North American**



Source: MPI, KIS

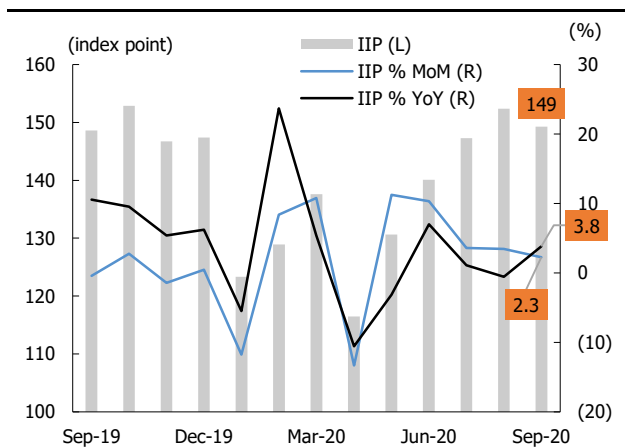
## V. Industrial growth keeps steady pace

Regarding the real production level, the industrial production marked a five-month recovery since April, maintaining roughly pre-crisis levels since July. Specifically, IIP was growing sustainably by 2.3% MoM and 3.8% YoY, and this growth in September was driven by both domestic-demand (foods, beverages, materials industries, etc.) and foreign-demand industries (garment, footwear, electronics industries, etc.)

The manufacturing sector (growing 3.16% MoM and 4.59% YoY) was contributing the most to the robust industrial recovery. Meanwhile, the mining sector (declining 0.12% MoM and 5.67% YoY) remained subdued for a long period although its decreasing pace slowed down significantly.

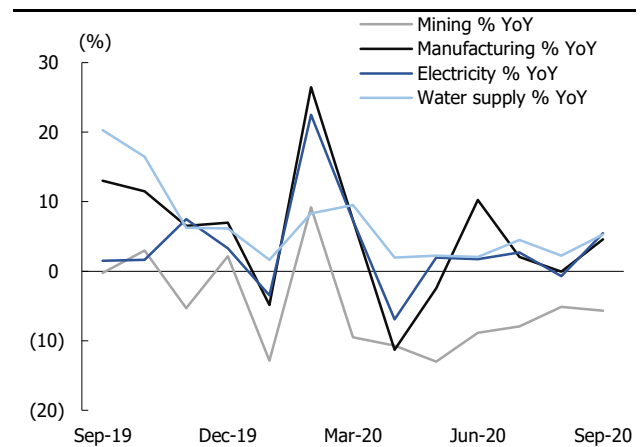
Besides, the production level of electricity production & distribution declined by 2.50% MoM but increasing 5.46% YoY, while those of the water supply sector rose strongly by 3.64% MoM and 5.29% YoY.

**Figure 18. Industrial production index**



Source: GSO, KIS

**Figure 19. Level-1 sectoral components**



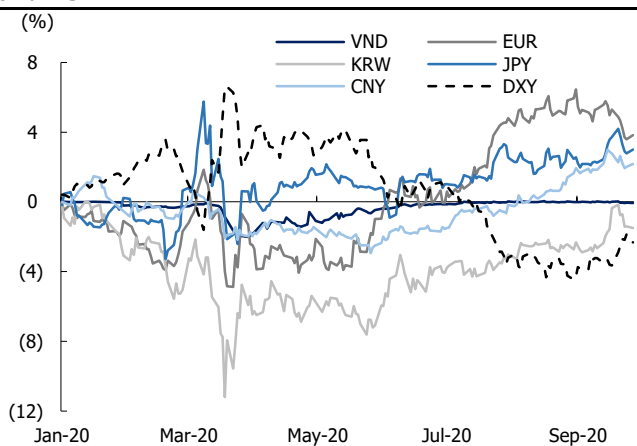
Source: GSO, KIS



## VI. USD rebounds after a 4-month losing streak

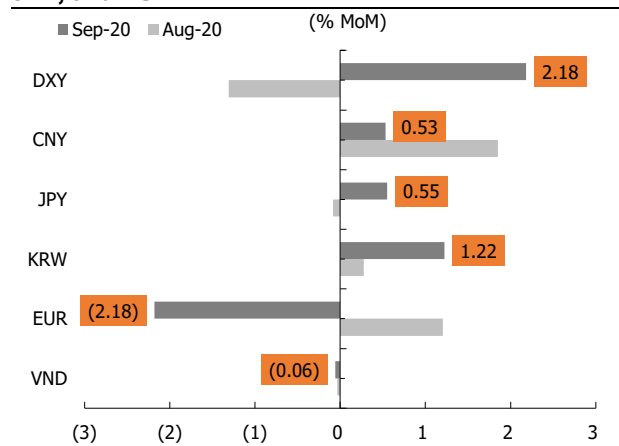
In September, USD was rebounding from its low after plummeting for 4 straight months since April. The U.S. dollar index, the DXY index, rose by 2.18% MoM as of 28th September 2020. Notably, KRW, JPY, CNY remained strong even under USD strengthening, rising by 1.22% MoM, 0.55% MoM, and 0.53% MoM against USD, respectively.

**Figure 20. Movements of VND, USD, CNY, KRW, JPY, and EUR**



Source: Bloomberg, KIS

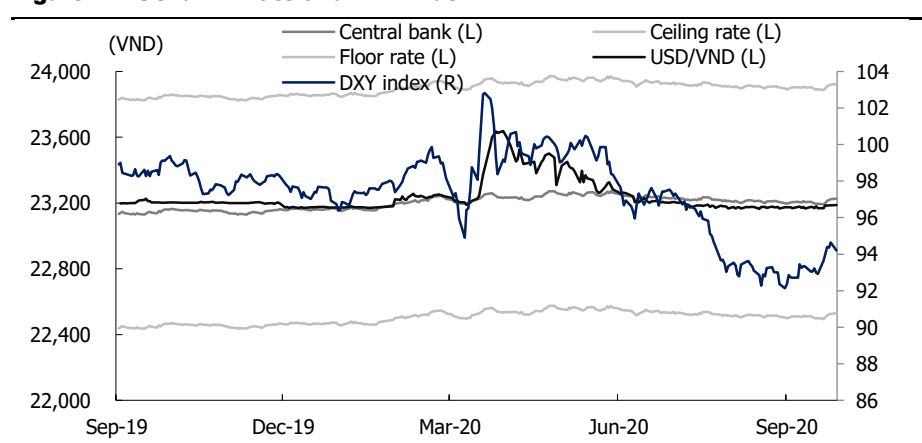
**Figure 21. Monthly changes in VND, USD, CNY, KRW, JPY, and EUR**



Source: Bloomberg, KIS

Meanwhile, VND remained relatively highly stable compared to other currencies as it moved in a very tight range of between 23,191 and 23,256 mid-May. As of 28<sup>th</sup> September, VND lost about 0.06% MoM against USD, and the implied volatility in the month (standard deviation from its daily change) remained significantly low.

**Figure 22. USD/VND rate and DXY index**

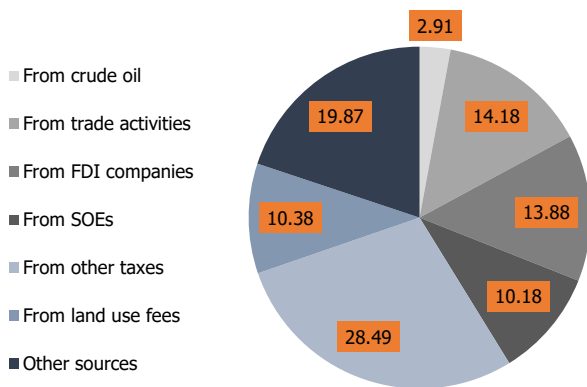


Source: Bloomberg, KIS

## VII. Budget deficit expands to VND133.9tn

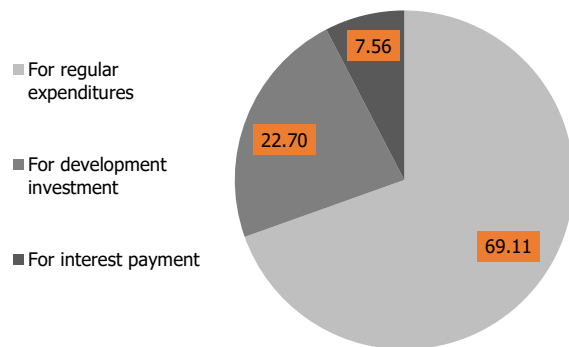
According to GSO's latest update, as of 3Q20, total government revenue posted VND902.5tn, equivalent to 59.7% of the year estimate. Of which, domestic revenue achieved VND747.3tn, equaling 59.1% of the annual estimate. Revenue from crude oil reached VND26.3tn, equaling 74.9%, while that from export-import activities was VND128.0tn, equaling 61.6%.

**Figure 23. Sources of government revenue in 9M20**



Source: GSO, KIS

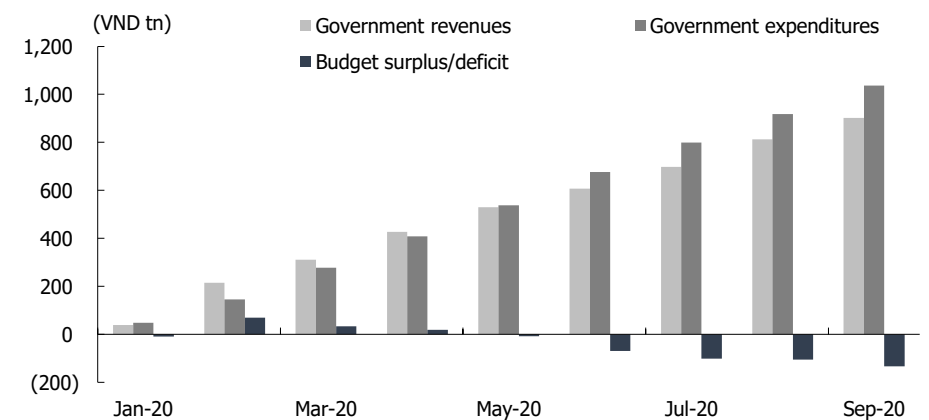
**Figure 24. Types of government expenditures in 9M20**



Source: GSO, KIS

On the other side, total expenditure was estimated at VND1,036.4tn, fulfilling 59.3% of the year estimate. In particular, the regular expenditure posted VND716.30tn, equaling 67.8% of the year plan, the development and investment spending recorded VND235.3tn, equivalent to 55%, and the interest payment was VND78.4tn, equaling 66.3%.

**Figure 25. Year-to-date government revenue and expenditures in 2020**



Source: GSO, KIS

As a result, by 3Q20, the state budget recorded a deficit of VND133.9tn.

## Macro scorecard

(USD bn, USD, %, % YoY)

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	3Q19	4Q19	1Q20	2Q20	2016	2017	2018	2019
Real GDP growth							7.31	6.97	3.82	0.36	6.21	6.81	7.08	7.03
Registered FDI	3.78	1.55	1.79	3.15	0.72	2.62	7.66	11.86	8.55	7.12	20.95	35.88	35.47	38.02
GDP per capita											2,172	2,353	2,551	2,730
Unemployment rate											2.33	2.21	2.21	2.25
Export	17.60	18.50	21.00	23.00	27.70	27.50	72.22	68.83	56.9	59.2	176.6	215.1	243.5	263.6
Import	18.52	19.40	20.50	22.00	22.72	24.00	67.14	66.51	56.2	60.3	175.0	213.2	236.7	254.4
Export growth	(19.98)	(15.50)	(2.00)	0.31	2.49	18.02	10.72	7.29	(3.13)	(5.31)	8.99	21.82	13.19	8.16
Import growth	(11.77)	(15.90)	5.16	(2.94)	2.85	11.63	8.30	4.22	(1.59)	(7.17)	5.55	21.85	11.01	7.41
Inflation	2.93	2.40	3.17	3.39	3.18	2.98	2.23	2.79	3.53	3.57	2.66	3.53	3.54	2.79
USD/VND	23,309	23,282	23,206	23,167	23,175	23,188	23,203	23,173	23,637	23,206	22,761	22,698	23,175	23,173
Credit growth	1.42	1.20	2.80	3.45			9.40	13.70	0.68	2.80	18.25	18.24	13.89	13.70
10Y gov't bond	2.90	3.07	3.07	2.88	2.88	2.52	4.07	3.37	3.24	3.07	6.23	5.14	5.07	3.37

Source: GSO, Bloomberg, FIA, IMF

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