

Economic Perspectives

GDP bounces back into growth

GDP rebounds markedly from the worst slump

According to GSO, GDP growth rebounded to 2.62% YoY after sliding to the record-low level since the global financial crisis. The growth rate in this period did not surprise the market as it is quite near to most current expectations and was in line with the authority's expected range at 2%-2.5%. We predict the domestic output to accelerate at 3.46% YoY in the next period in association with the recent economic condition development.

Trade grows at a double-digit pace

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. We predict exports and imports to grow significantly at 18.07% YoY and 11.17% YoY in October due to improving major consumer confidence indices.

Investment plans are on hold amid uncertainties

In September, an acceleration in FDI disbursement is signalling that foreign investors still see Vietnam market an attractive destination. Looking forward 4Q20, as the government allows to re-open international flights for top strategic investment partners, it is expected a key to unlock both the FDI registration and disbursement in the next quarter.

Industrial growth keeps steady pace

From our viewpoint, there is still space for further growth in the industrial sector in 4Q20. Productions in main sectors, including textile and electronics industries, remain steady, while growth in consumer goods, garment & footwear, iron & steel industries are gaining pace. From our viewpoint, we expect the IIP would continue to grow at about 2% - 4% MoM in October.

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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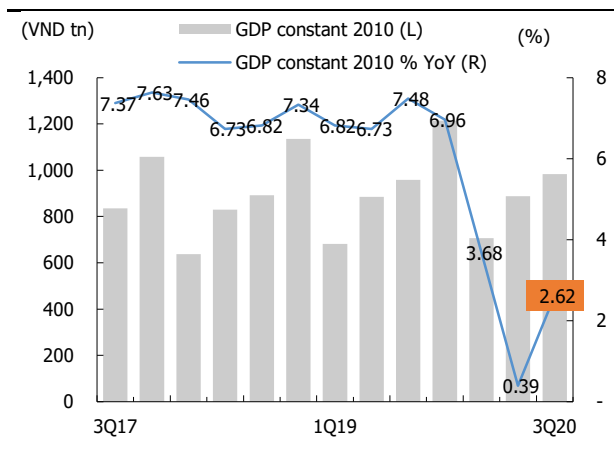
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I. GDP rebounds markedly from the worst slump

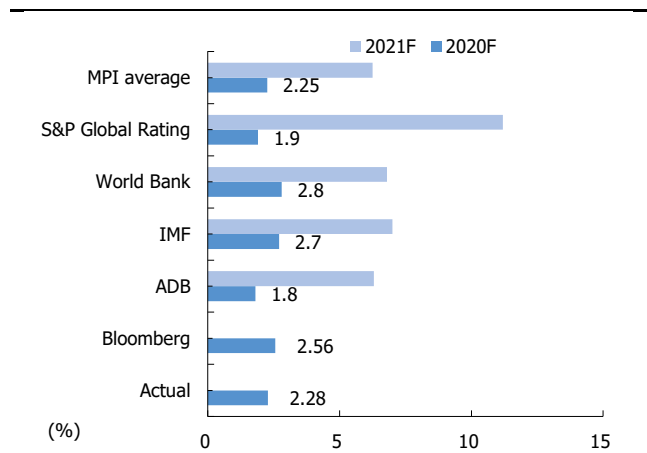
According to GSO, GDP growth rebounded to 2.62% YoY after sliding to the record-low level since the global financial crisis. Given that GDP at constant 2010 price to expand at the same pace in the next quarter, the growth rate in this period did not surprise the market as it is quite near to most current 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%. In comparison to some of our major trading partners such as the US, China, South Korea, and Japan,

Figure 1. Vietnam Real GDP



Source: KIS, GSO

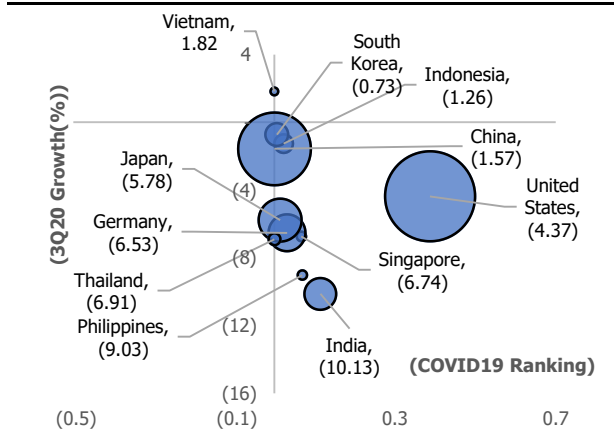
Figure 2. Vietnam GDP growth and expectations



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

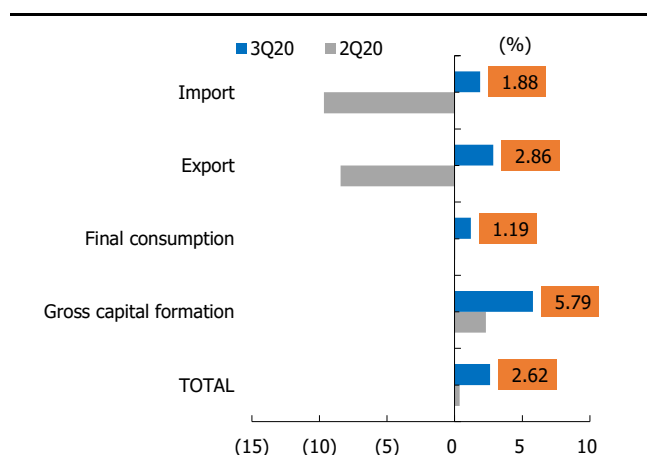
In terms of the demand side, 3Q2020 witnessed improvements across all GDP's expenditure components. Gross capital formation (GCF) kept growing with the highest rate at 5.79% YoY, 249bps- higher than 2Q2020 while export and import made big moves from the reductions to modest expansions at 1.88% YoY and 2.86% YoY, respectively. The final consumption (FC) grown by 1.19% YoY, changing slightly compared to the previous quarter.

Figure 3. GDP growths of Vietnam and peers in 1H20



Source: KIS, GSO, <https://ourworldindata.org/coronavirus-data>
 COVID19 Ranking was the standardized new cases per million persons ranking in 3Q2020. High COVID19 ranking presents high value of new cases per million persons.

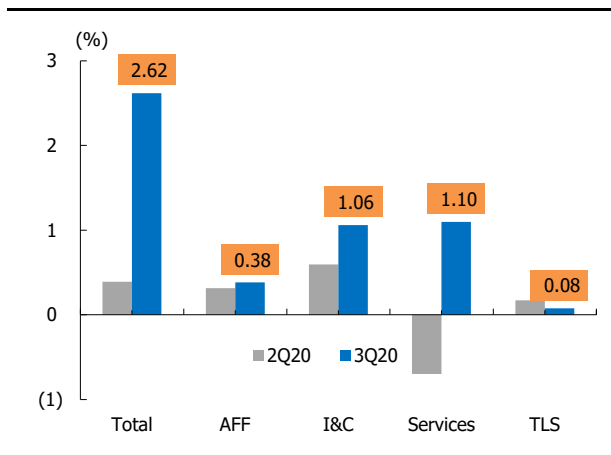
Figure 4. Vietnam GDP growths by expenditure



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

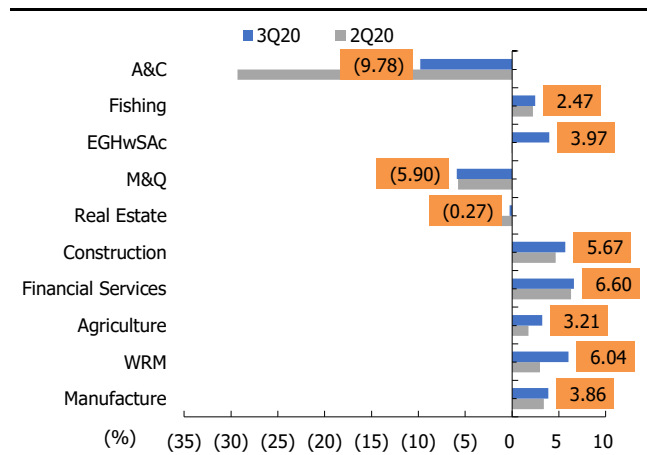
Regarding sectoral contribution, most of the GDP's components improved considerably in this quarter except for product taxes less subsidies on production (TLS). The services sector's growth was the most prominent as turning from reduction at 1.93% YoY in the previous period to expansion at 2.75% YoY 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 5. Vietnam GDP contributions by sector



Source: KIS, GSO
 AFF: Agriculture, Forestry, and Fishery. I&C: Industry and Construction. TLS: Product taxes less product subsidies

Figure 6. Top 10 sub-sector growths

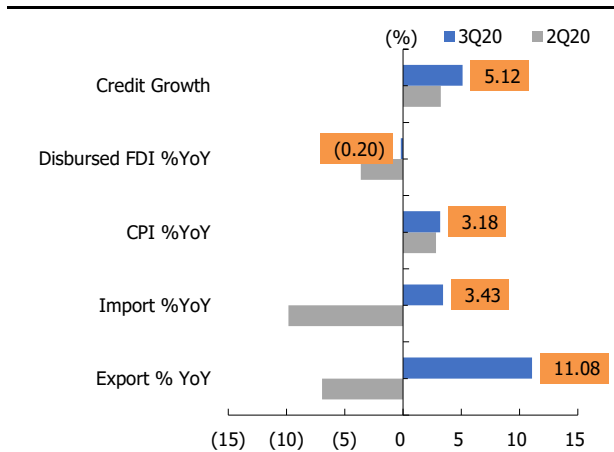


Source: KIS, GSO
 A&C: Accommodation and catering services, EGHwSAC: Production & supply of electricity, gas, hot water, steam and air-conditioning. WRM: Wholesale and retail trade; repair of motor vehicles and motorcycles. M&Q: Mining and quarrying.

We point out some probable reasons explaining the current economic growth.

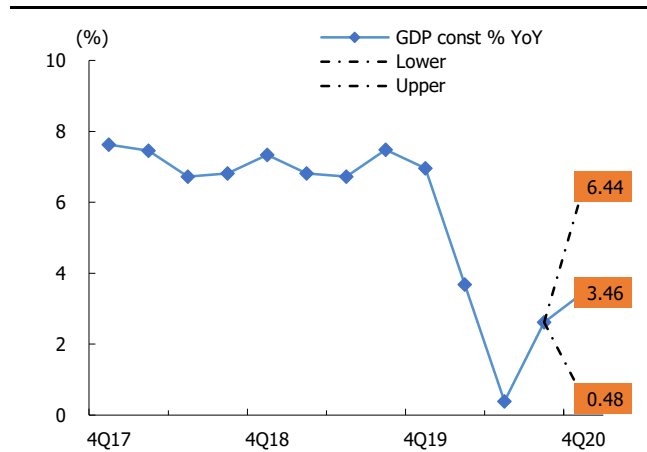
- First, the global economic downtrend became less severe and promoted the trade activity as well as the domestic economic growth rebound.
- The outstanding loans in first lending market moved up with an acceptable rate in the context of a sluggish lending demand.
- FDI inflows also improved as a consequence of travel ban ease.
- CPI increased fairly and reserve price motivation for domestic production.

Figure 7. Vietnam GDP growth determinants



Source: KIS, GSO
 AFF: Agriculture, Forestry, and Fishery. I&C: Industry and Construction. TLS: Product taxes less product subsidies

Figure 8. Vietnam GDP growth 4Q2020 Forecast



Source: KIS, GSO
 A&C: Accommodation and catering services, EGHwSAC: Production & supply of electricity, gas, hot water, steam and air-conditioning. WRM: Wholesale and retail trade; repair of motor vehicles and motorcycles. M&Q: Mining and quarrying.

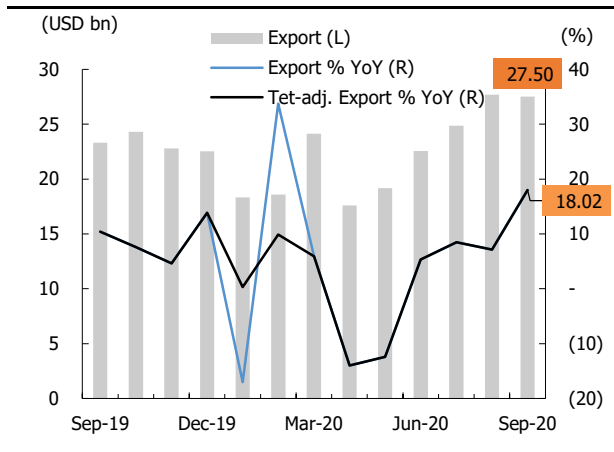
PREDICTION:

Using latest information about our explanatories, we predict the real output to accelerate in the fourth quarter at 3.46%.

II. Trade grows at a double-digit pace

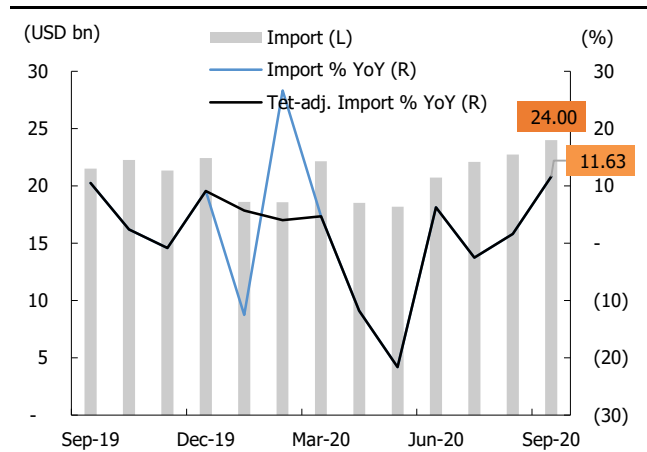
Trade value soared in September 2020 as export and import rose significantly by 18.02% YoY and 11.63% YoY, posting USD27.50bn and USD24.00bn respectively. Consequently, the trade balance continued recording a high surplus at USD3.5bn. Several factors are affecting the trade movement in this period. Firstly, the consumer buying tendency among our essential trading partners are improving. Specifically, we see more optimistic signals from the US, EU, and Japan when consumers became more confident about the business and labor market conditions. Secondly, the dong kept stable against a globally weakening greenback. The phenomenon enhances somewhat the competitiveness of goods and services, originating from Vietnam compared to other areas. The combination of these factors helps explain the modest growth of trade activity this month.

Figure 9. Vietnam monthly export



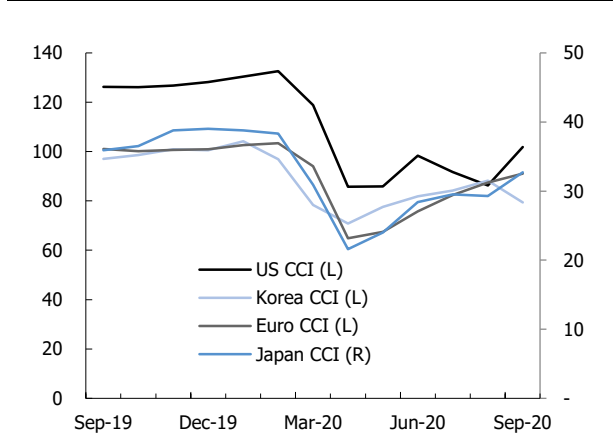
Source: KIS, GSO

Figure 10. Vietnam monthly import



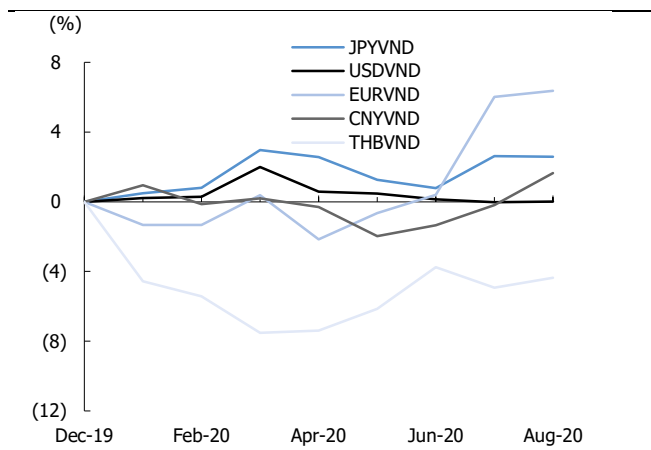
Source: KIS, GSO

Figure 11. Consumer confidence index (CCI) across important trading partners



Source: KIS, WHO

Figure 12. YTD changes in foreign currencies to VND



Source: KIS, Bloomberg

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 13. Vietnam top 10 export items

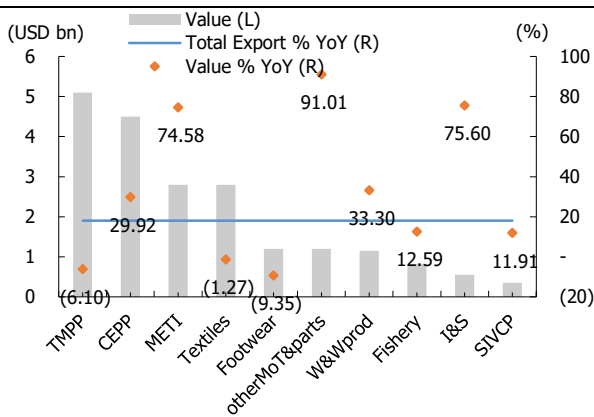
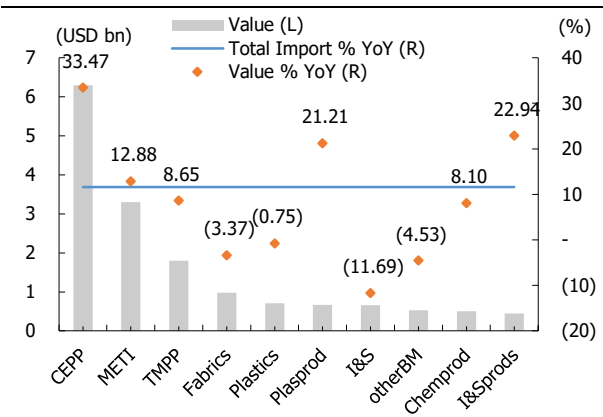


Figure 14. Vietnam top 10 import items



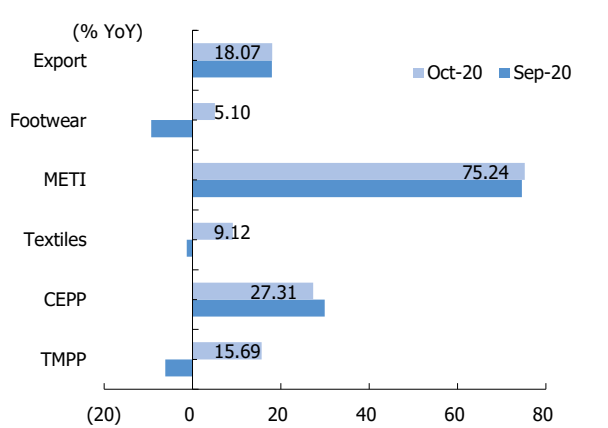
Source: KIS, GSO

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.

PREDICTION:

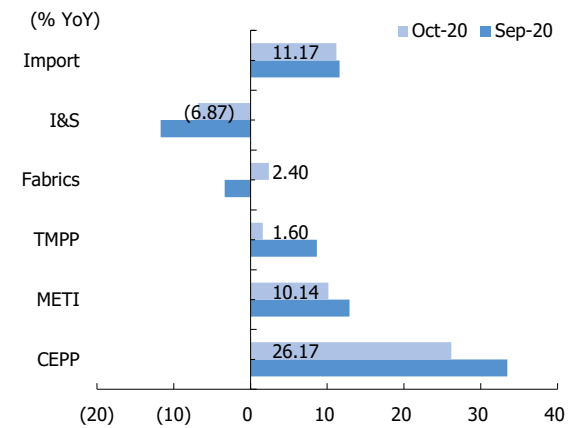
We predict that exports will increase by 18.07% YoY, and imports will increase by 11.17% YoY in October 2020.

Figure 15. Vietnam export October 2020 forecast



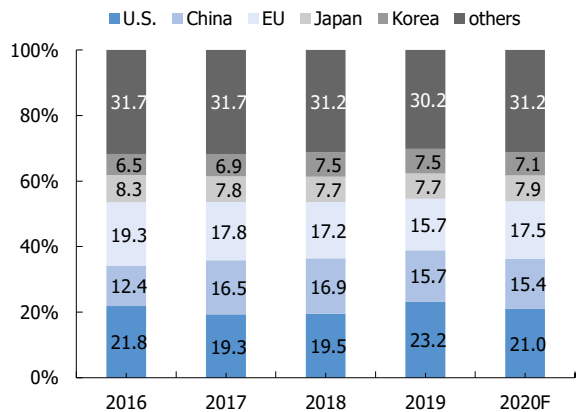
Source: KIS, Bloomberg

Figure 16. Vietnam import October 2020 forecast



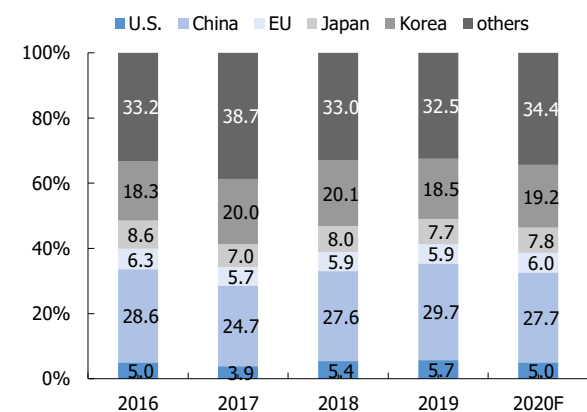
Source: KIS, Bloomberg

Figure 17. Vietnam export by country



Source: KIS, GSO

Figure 18. Vietnam import by country



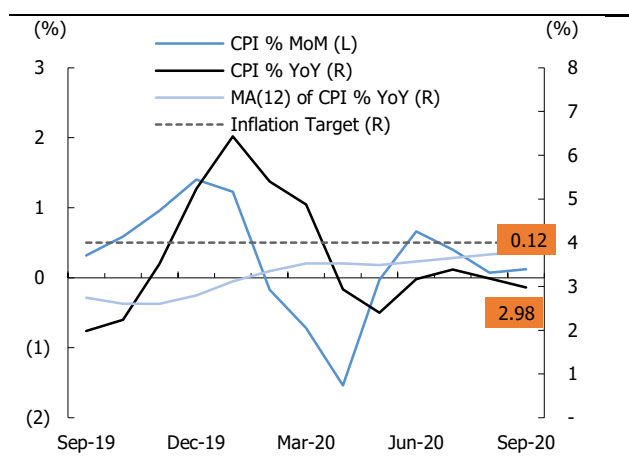
Source: KIS, GSO

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 the current monthly change was lower than in the same period in 2019. Specifically, CPI increased by 2.98% YoY in September 2020, 20bps-lower than August 2020. Besides, the 12-month rolling inflation rate posted 3.81%, 19bps-lower than the Government target rate of 4%.

The opposition between education, housing and construction materials (HCM) and pork prices explained virtually variation in CPI this period. Specifically, education and HCM sub-indices rose by 2.29% MoM and 0.62% MoM and added 22bps to CPI's increase. In contrast, the pork price continued moving down and hindered the overall price index's upward momentum.

Figure 19. CPI Monthly Change



Source: GSO, KIS

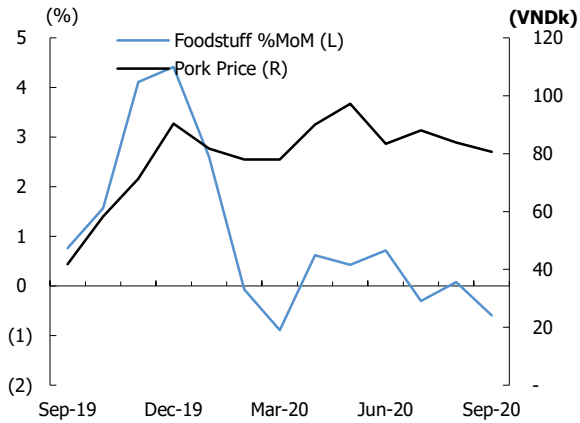
Table 1. Inflation by sectors in October 2020

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
Consumer Price Index		0.12	2.98

Source: GSO, KIS

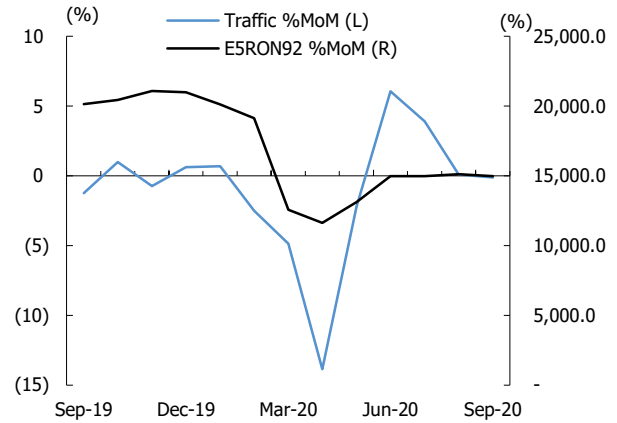
Regarding the petroleum product prices, E5RON92 and RON95 decreased modestly by 1.35% MoM and 0.86% MoM, posting VND14,215 and VND14,984 in September. Such reductions drove the traffic index to decline by 0.12% MoM this month, dragging the overall CPI monthly change down by 1bps.

Figure 20. Pork price and Food and Foodstuff



Source: KIS, Bloomberg

Figure 21. Petroleum product prices movements

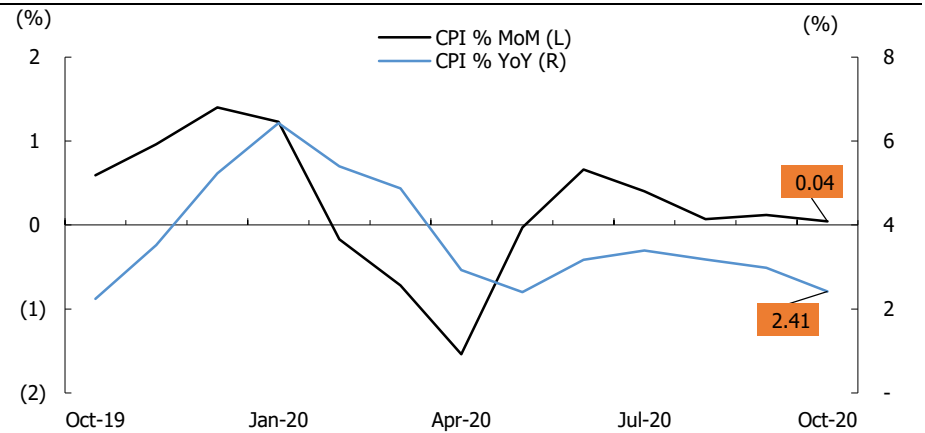


Source: KIS, Bloomberg

PREDICTION:

Consumer price index is losing its upward momentum as gasoline and pork prices became more stable. We use this pattern to predict that CPI will slightly increase by 0.04% MoM and 2.41% YoY in October 2020.

Figure 22. Forecast of CPI in October 2020



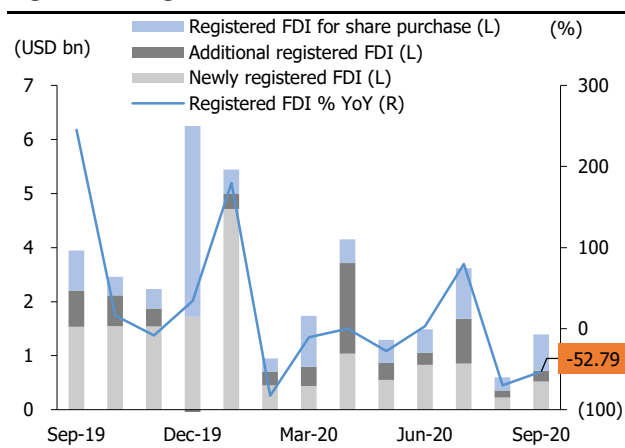
Source: KIS, GSO

IV. Investment plans are on hold amid uncertainties

In September, FDI inflows to the Vietnam economy remained silent, especially the numbers of FDI registration are far worse than normal. It is apparent that the COVID-19 pandemic is the main problem as not only it challenges investors' confidence by great uncertainties, but also the government requires strict restrictions for international investors to enter Vietnam.

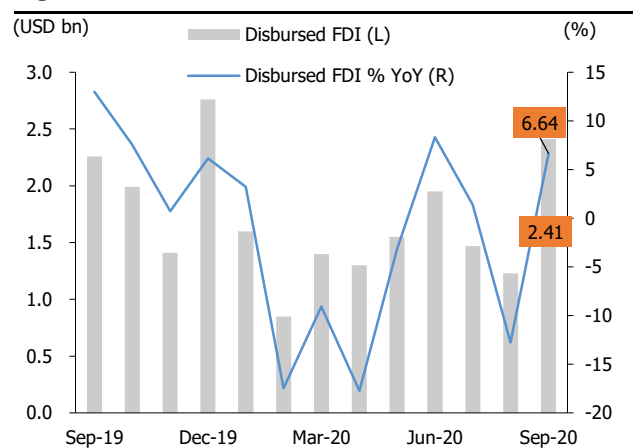
In details, total registered FDI recorded just USD1.67bn (-52.79% YoY) in the month, in which the figures for new and additional registered capital were significantly low at USD0.63bn (-66.09% YoY) and USD0.24bn (-69.83% YoY), and that for share purchase reached USD0.80bn (-9.95% YoY). Oppositely, FDI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

Figure 23. Registered FDI



Source: MPI, KIS

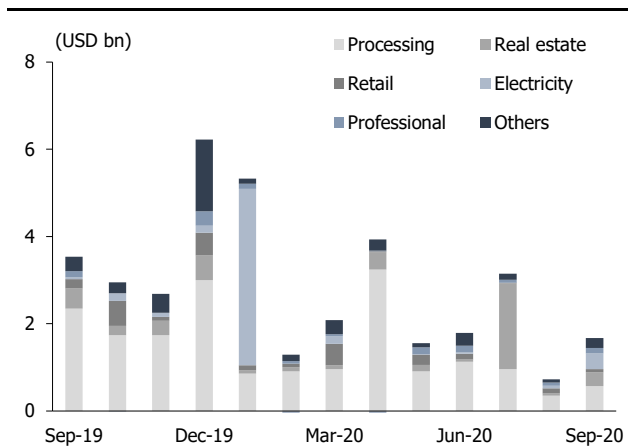
Figure 24. Disbursed FDI



Source: MPI, KIS

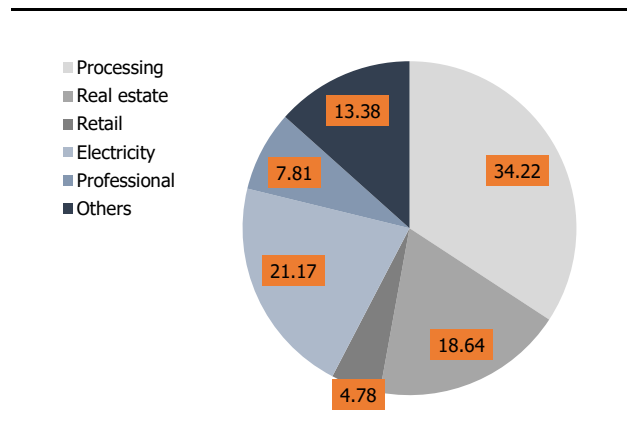
Processing, electricity, and real estate sectors were receiving the largest inflows as the capital registered in these sectors posted USD0.57bn (34.22% of total registered FDI), USD0.35bn (21.17%), and USD0.31bn (18.64%), respectively. Meanwhile, FDI into the retail sector remained insignificant.

Figure 25. Registered FDI by sector



Source: MPI, KIS

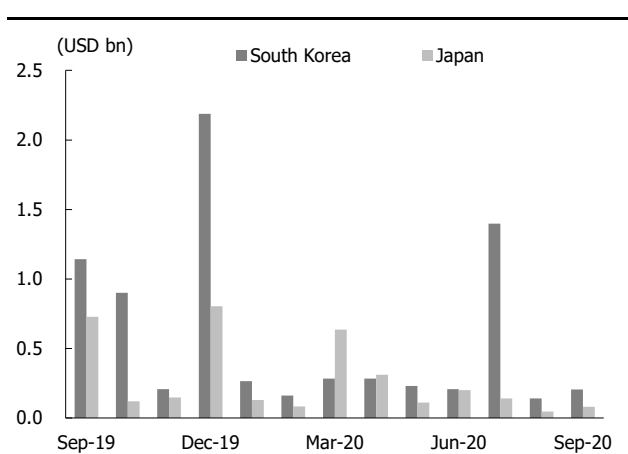
Figure 26. Structure of registered FDI in 2Q20



Source: MPI, KIS

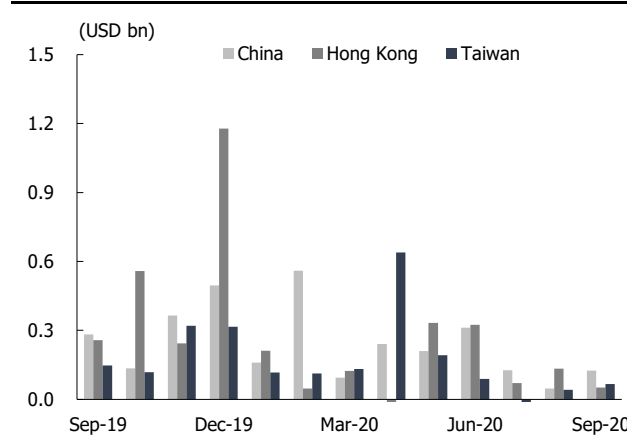
On the other hand, investment flows from major investing partners, including China, Hong Kong, Taiwan, and Japan, was recorded at extremely low, posting USD0.13bn, USD0.05bn, USD0.07bn, and USD0.08bn, respectively. FDI from South Korea investors also remained significantly weak, at about USD0.20bn.

Figure 27. FDI inflows from South Korea, Japan



Source: MPI, KIS

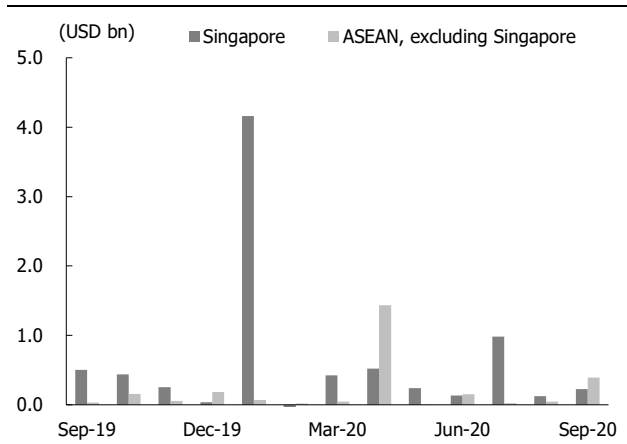
Figure 28. FDI inflows from China, Hong Kong, Taiwan



Source: MPI, KIS

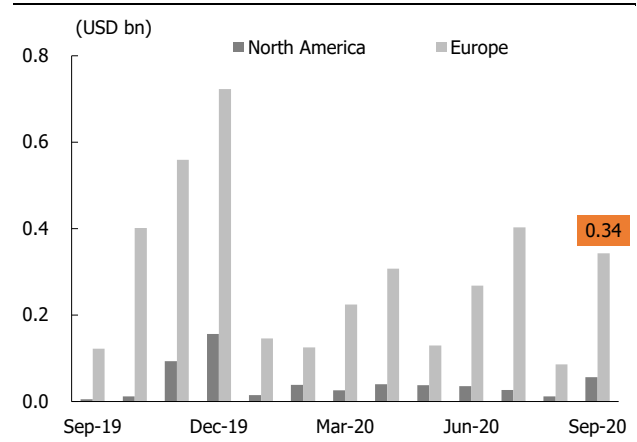
FDI inflows from ASEAN and European partners were less severely interrupted. Accumulatively, registered capital from ASEAN investors recorded a total of USD0.62bn, in which USD0.23bn was coming from Singapore. Meanwhile, FDI from European countries was about USD0.34bn, while the number for North America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

Figure 29. FDI inflows from ASEAN partners



Source: MPI, KIS

Figure 30. FDI inflows from Europe and North American



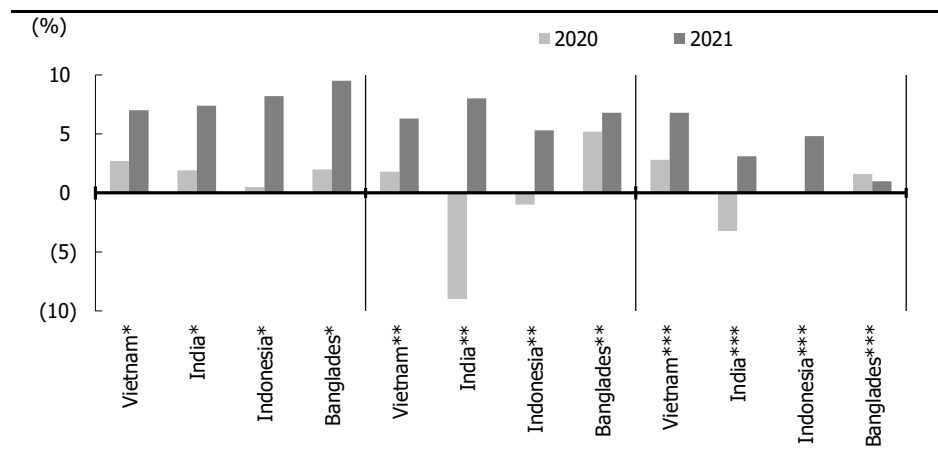
Source: MPI, KIS

PREDICTION:

From our viewpoint, the disbursement figure is reflecting the most meaningful insights about foreign investors’ interests on Vietnam economy. And, an acceleration in the capital disbursement is implying that Vietnam market may still be attractive to foreign investors, while a drop in the FDI registration figure is likely just a short-term delay of investment plans mainly due to restrictions on global migration to Vietnam.

On the one side, EU-Vietnam Free Trade Agreement (EVFTA, effective from August 2020) is considered a major advantage of the Vietnam market relative to other peers. On the other side, recent economic projections are pointing out that Vietnam recovery is expected far better than other FDI-attractive destinations (including India, Bangladesh, and Indonesia) during- and post- the health crisis, making it the strongest among peers.

Figure 31. GDP Projections for FDI-attractive emerging markets



Source: IMF, ADB, World Bank
 *: IMF estimates from Apr 2020, which does not fully reflect the impact of COVID-19 on these economies at that time.
 **: ADB estimates from Sep 2020
 ***: World Bank estimates from Oct 2020

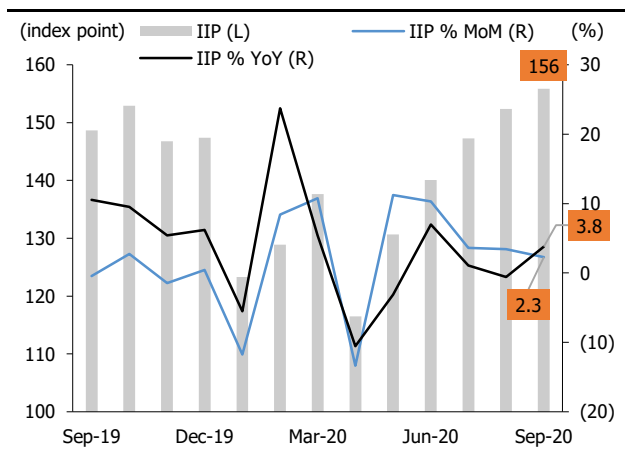
Furthermore, the economy is ready to open again this time as the government is allowing international flights for top strategic investment partners (including South Korea, Japan, China, and Taiwan) from 15th Sep 2020 with significantly easing quarantine rule, according to Vietnam's Ministry of Transport. Thus, it is expected a key to unlock both the FDI registration and disbursement in the next quarter.

For all those reasons, we expect that FDI will rebound in the last quarter of 2020.

V. Industrial growth keeps steady pace

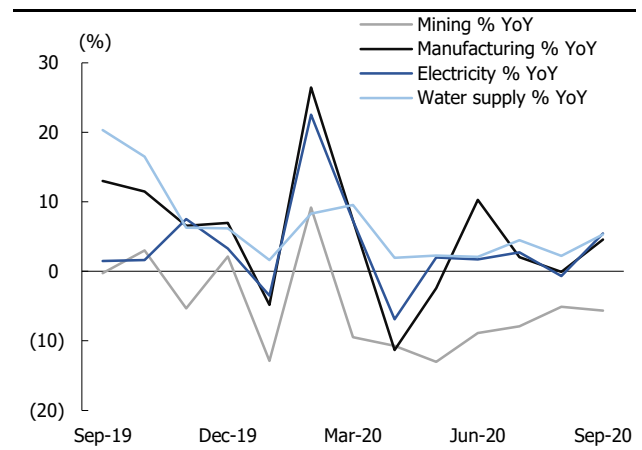
Regarding the real production level, the industrial production marked a five-month recovery since April. Specifically, in September, IIP was growing sustainably by 2.3% MoM and 3.8% YoY, and this growth was driven by both domestic-demand (foods, beverages, materials industries, etc.) and foreign-demand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

Figure 32. Industrial production index



Source: GSO, KIS

Figure 33. Level-1 sectoral components



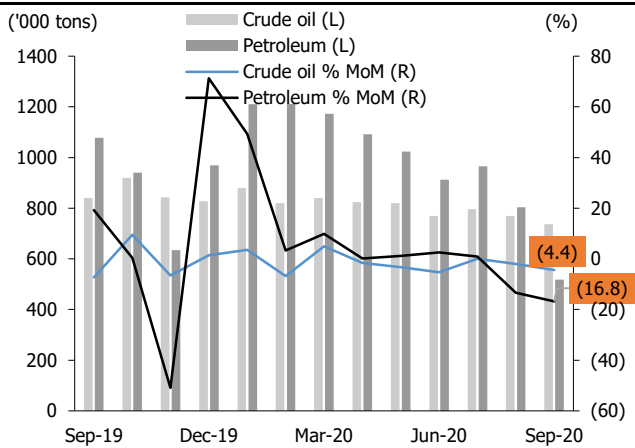
Source: GSO, KIS

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, although its decreasing pace somewhat slowed down.

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.

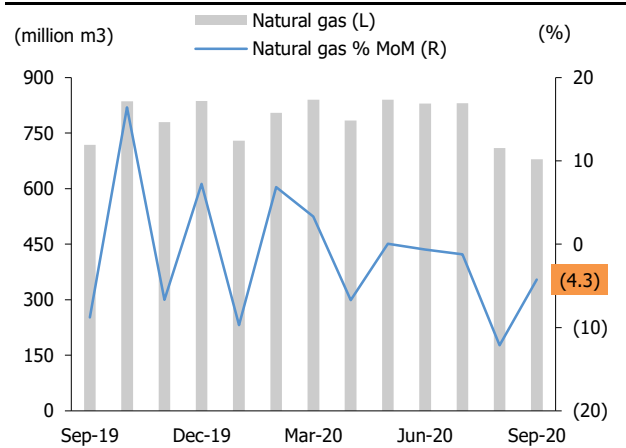
Further details about major industries and also industrial products are as follows.

Figure 34. Production of crude oil and petroleum



Source: KIS, GSO

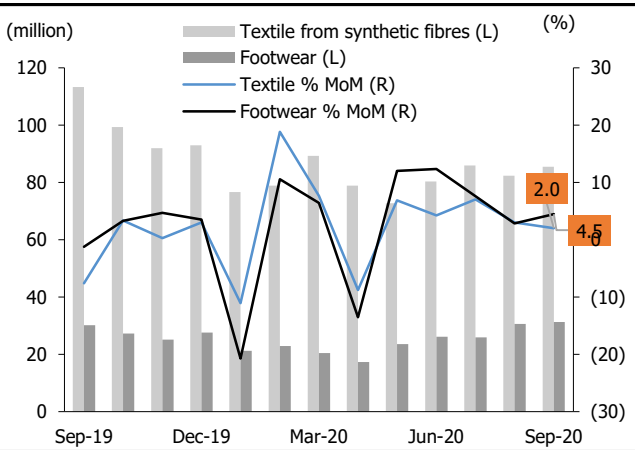
Figure 35. Production of natural gas



Source: KIS, GSO

In September, the extraction of crude oil (-4.4% MoM) and natural gas (-4.3% MoM) remained subdued since February 2020. Meanwhile, the production of petroleum dropped significantly in August (-13.4% MoM) and September (-16.8% MoM) due to nearly 2-month maintenance of Dung Quat Oil Refinery.

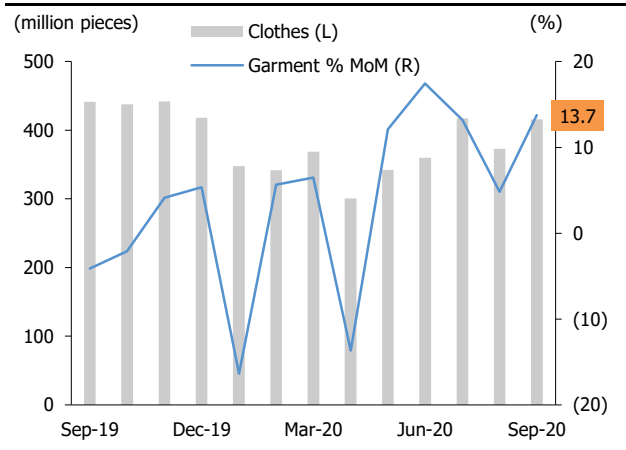
Figure 36. Production of textile and footwear



Source: KIS, GSO

Textile from synthetic fibres: million m2; Footwear: million pairs

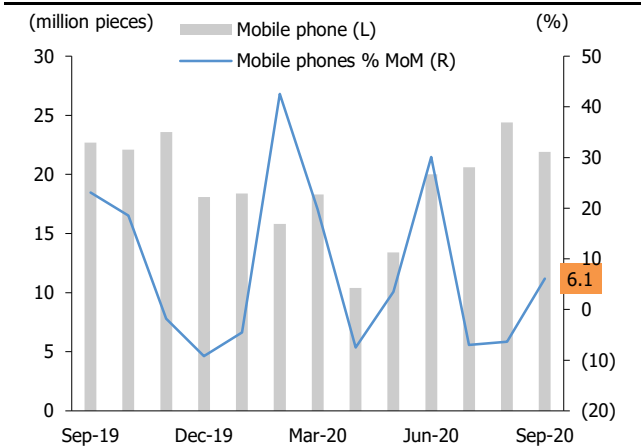
Figure 37. Production of clothes



Source: KIS, GSO

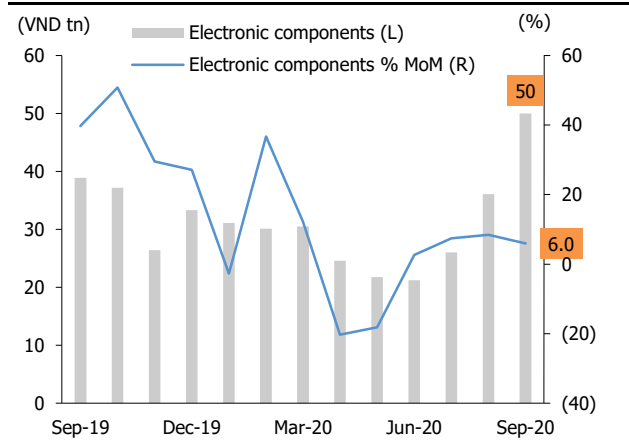
Manufacturing of textile and footwear was stable at about 2019's levels, growing 2.0% MoM and 4.5% MoM, respectively. However, the garment sector, specifically clothes manufacturing, rose significantly by 13.7% n/n, while its real production reached the highest in 2020.

Figure 38. Production of mobile phones



Source: KIS, GSO

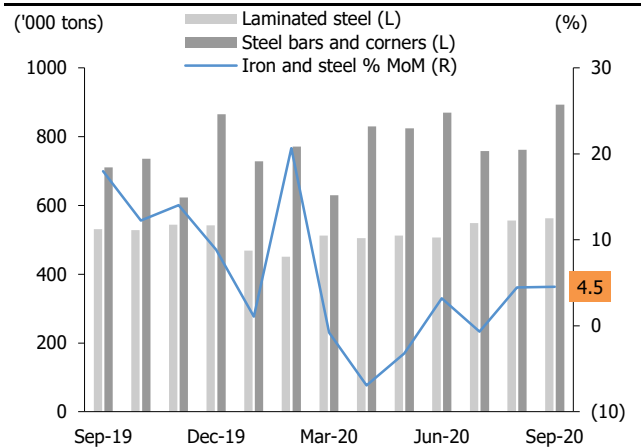
Figure 39. Production of electronic components



Source: KIS, GSO

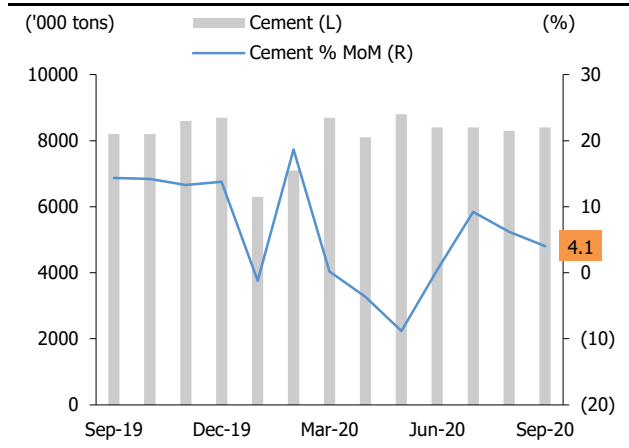
Manufacturing of mobile phones and electronic parts & components continued to remain robust, growing 6.1% YoY and 6.0% YoY, and drove the growth of the manufacturing sector. Notably, the production of mobile phone parts & components reached its 2-year high with the production value of about VND50tn.

Figure 40. Production of steel products



Source: KIS, GSO

Figure 41. Production of cement



Source: KIS, GSO

Manufacturing of steel rose markedly by 4.5% YoY in the month with steel export accelerating and domestic demand improving. Meanwhile, the manufacture of cement remained stable in recent months.

PREDICTION:

From our viewpoint, there is still space for further growth in the industrial sector in 4Q20. This time we expect the consumer goods industries, including food and beverage industries, will play a larger role in driving the industrial growth as recent data indicated a robust recovery in these areas after the second outbreak by late-July.

Besides, the production of garment and footwear improved markedly in 3Q20, especially in September. Textile & garment export remained solid since June. Furthermore, holiday seasons will be soon to come, followed by a surge in foreign demand, would be a key driver for these industries in 4Q20.

Growth in the production of iron and steel industry was sustainable in recent months, in which steel export was accelerating. As this industry remains strong thanks to robust domestic and foreign demand, we expect it would be an important driving factor for IIP growth in the near term..

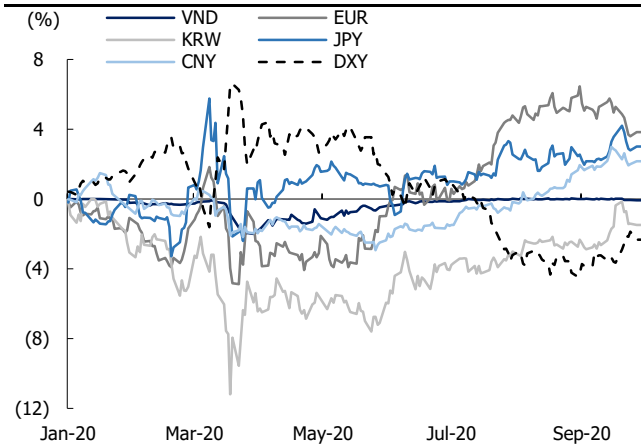
We also expect the production of petroleum products to back to normal as the Dung Quat Oil Refinery is fully re-operated from early October.

Taking these reasons into account, we expect the IIP would continue to grow at about 2% - 4% MoM in October.

VI. USD rebounds after a 4-month losing streak

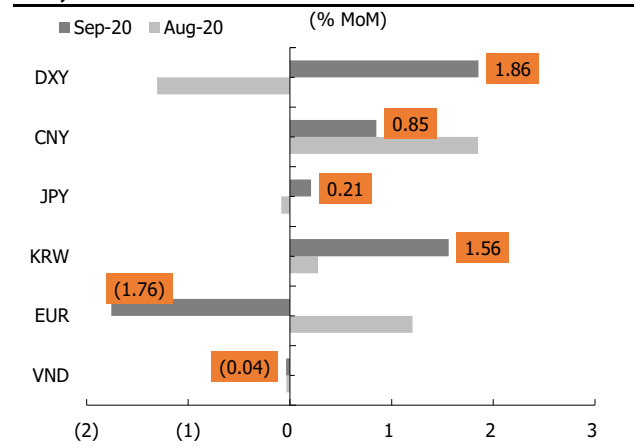
In September, USD was rebounding from its low after plummeting for 4 straight months since April. The U.S. dollar index, the DXY index, rose by 1.86% MoM. Notably, KRW, JPY, CNY remained strong even under USD strengthening, rising by 1.56% MoM, 0.21% MoM, and 0.85% MoM against USD, respectively. On the contrary, EUR depreciated by 1.76% MoM against the greenback, ending a 4-month increase. VND remained stable when losing just 0.04% MoM.

Figure 42. Movements of VND, USD, CNY, KRW, JPY, and EUR



Source: Bloomberg, KIS

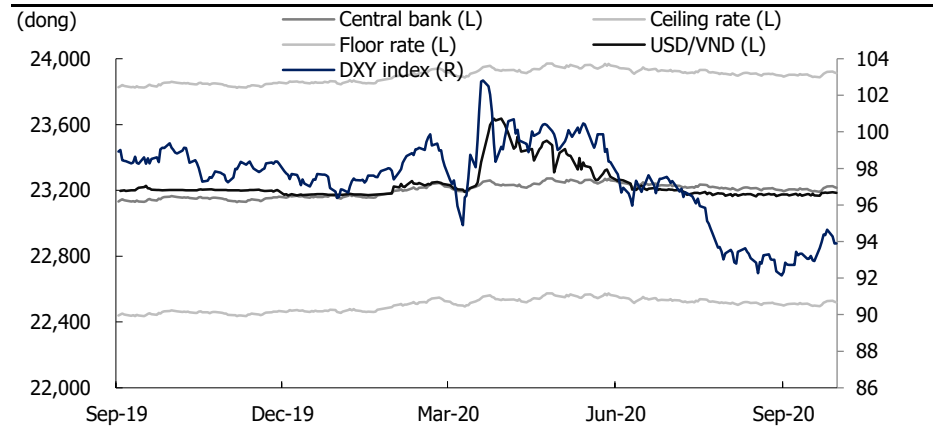
Figure 43. Monthly changes in VND, USD, CNY, KRW, JPY, and EUR



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 since mid-May. By end of 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 44. USD/VND rate and DXY index

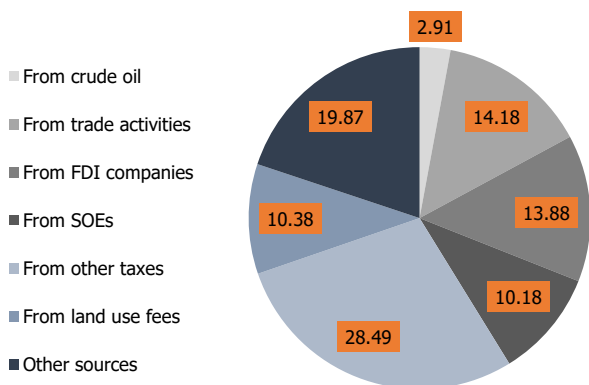


Source: Bloomberg, KIS

VII. Budget deficit expands to VND133.9tn

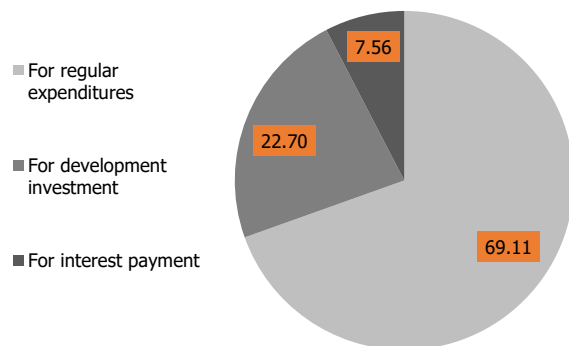
According to GSO's latest update, as of 3Q20, total government revenue posted VND902.5tn, equivalent to 59.7% of the year estimate. Of which, domestic revenue achieved VND747.3tn, equaling 59.1% of the annual estimate. Revenue from crude oil reached VND26.3tn, equaling 74.9%, while that from export-import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

Figure 45. Sources of government revenue in 9M20



Source: GSO, KIS

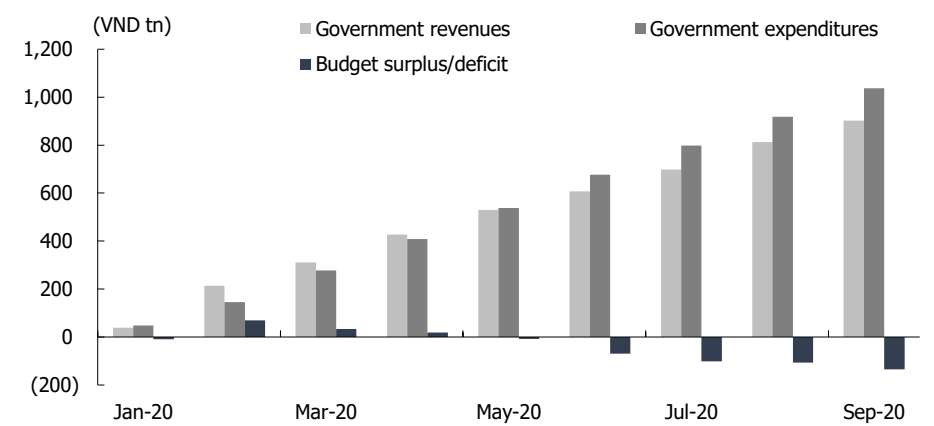
Figure 46. Types of government expenditures in 9M20



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 47. 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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