

Economic Perspectives

Vietnam's economy heads to another successful year

Domestic output to accelerate

Vietnam's real gross domestic product (GDP) recorded an impressive acceleration in 2020Q4, resulting in a whole-year growth rate higher than all market expectations. According to the latest GSO's estimate, Vietnam's economy increased by 4.48% %YoY in 4Q20, 1.78 percent point-higher than 3Q20. Consequently, 2020's real GDP growth posted 2.91% YoY, outperforming estimates setting by major international economic institutions such as IMF (1.60%), World Bank (2.80%), ADB (1.80%). In the favor of the promising fiscal spending plan, FTA participations, and vaccine development, we predict that the real domestic output to grow by 6.36% in 2021.

Strong tailwinds for FDI in 2021

In 4Q20, registered FDI recovered significantly to the third-largest level in 2.5 years. FDI disbursement even peaked at an all-time high, at about USD6.2bn in 4Q20. The ongoing global production shift opens up a great opportunity for Vietnam FDI in 2021, and this trend is already taking place.

IIP heads to strong performance in 2021

Sustainability in industrial growth was the main point in December as most industries stayed in growth territory except for the electronics industry. Looking forward to 1H21, thanks to a very low production base in 1H20, we expect the industrial growth to see a rapid pace.

KIS leading economic index

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

	1Q20	2Q20	3Q20	4Q20F	2019	2020F	2021F
GDP	3.82	0.36	2.62	4.48	7.02	2.91	5.94
Trade balance	3.82	1.92	10.72	2.54	10.42	19.01	1.77
CPI	4.87	3.17	2.98	0.19	5.23	3.24	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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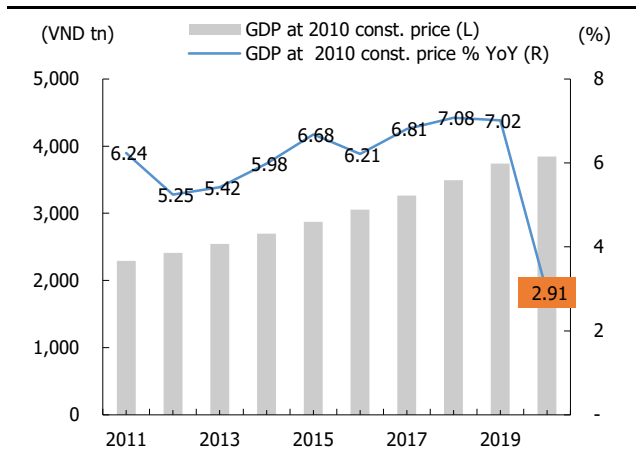
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I. Domestic output to accelerate

Impressive GDP growth in 4Q20

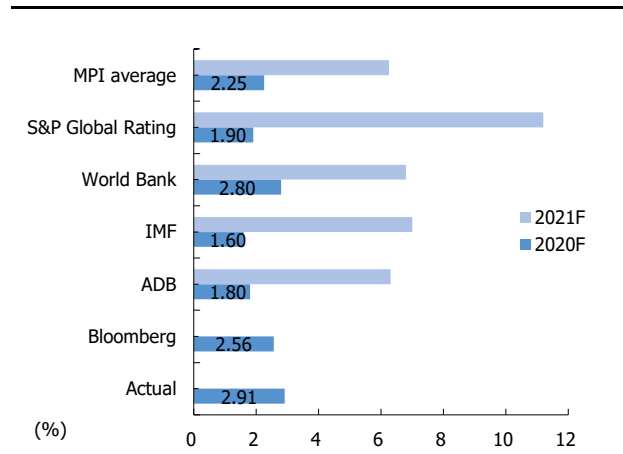
Vietnam's real gross domestic product (GDP) recorded an impressive acceleration in 2020Q4, resulting in a whole-year growth rate higher than all market expectations. According to the latest GSO's estimate, Vietnam's economy extends its upward momentum as real GDP increasing by 4.48% %YoY in the last quarter of 2020, 1.78 percent point-higher than 2020Q3. Consequently, the corresponding GDP growth rate in 2020 post 2.91%, outperforming estimates setting by major international economic institutions such as IMF (1.60%), World Bank (2.80%), ADB (1.80%).

Figure 1. Yearly GDP at 2010 constant price



Source: GSO, KIS

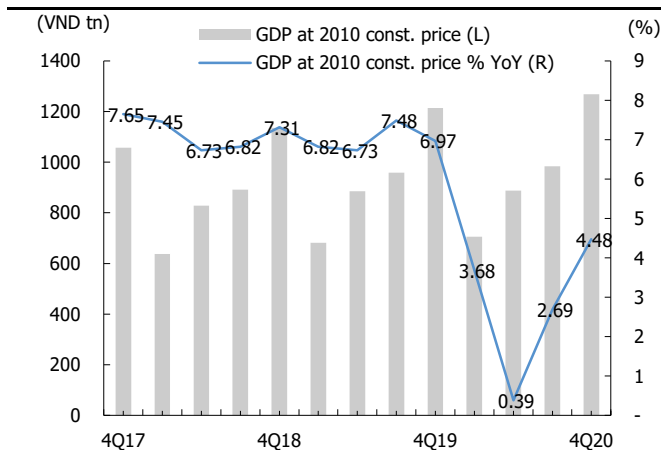
Figure 2. Yearly GDP growth and estimates



Source: GSO, KIS

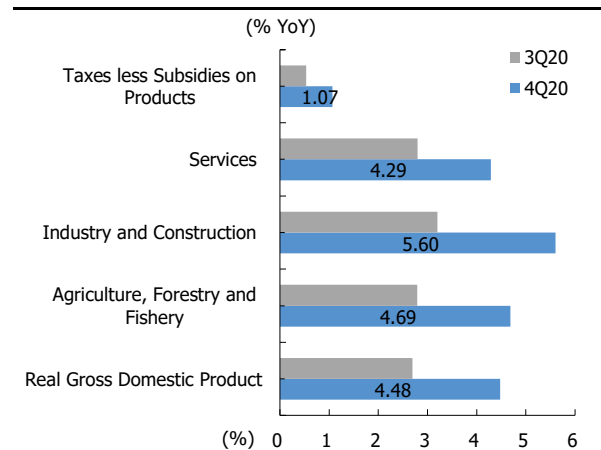
Regarding sectoral contributions, this period witnessed significant accelerations across all GDP's components, including the agriculture, forestry, and fishery (AFF), industry and construction (I&C), services and taxes less subsidies on products (TLS). Specifically, AFF, I&C, services, and TLS rose by 4.69%, 5.60%, 4.29% and 1.07%, 1.89%-, 2.40%-, 1.49%-, and 0.53%- higher than the previous quarter, respectively.

Figure 3. Quarterly GDP at 2010 constant price



Source: GSO, KIS

Figure 4. Quarterly GDP growth by sector



Source: GSO, KIS

Taking a deeper look at moves of sub-sectors, 21 over 22 items witnessed improvements in 4Q20 compared to the third quarter, except for mining and quarrying (M&Q) and resulted in the general acceleration of the domestic output this period. Given the largest portion in GDP structure, manufacturing accelerated with the fastest pace as its value rose by 8.63% YoY, 4.77-percentage points (pps)- higher compared to growth rate in 3Q20 and contributed one-third of overall growth this quarter. Also, other key sub-sectors such as vehicles and motorcycles (V&M), agriculture, construction, and finance, banking & insurance (FinS) also experienced impressive progresses as their values increased by 6.97% YoY, 4.94% YoY, 8.56% YoY, and 7.21% YoY, which are 1.46pps-, 2019pps-, 1.52pps- and 0.66pps-higher compared to previous growth rates, respectively. Notably, accommodation and catering services (A&C), being considered as most COVID19-affect business, was showing positive sign as its reduction softened to 8.05% YoY from a double-digit rate in previous period. On the minor side, M&Q was deteriorating as its reduction rate increase by 20 basis points to post 6.10% YoY this quarter.

Figure 5. Top 10 sub-sector quarterly growths (% YoY)

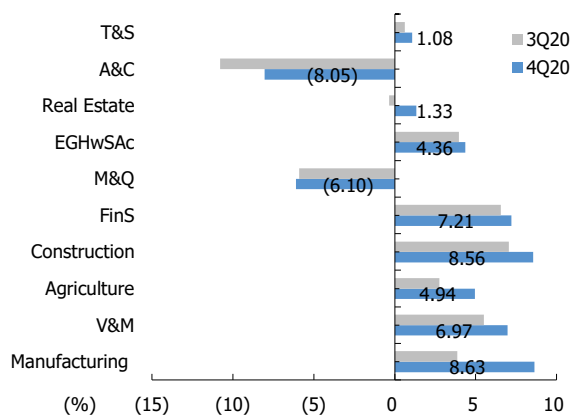
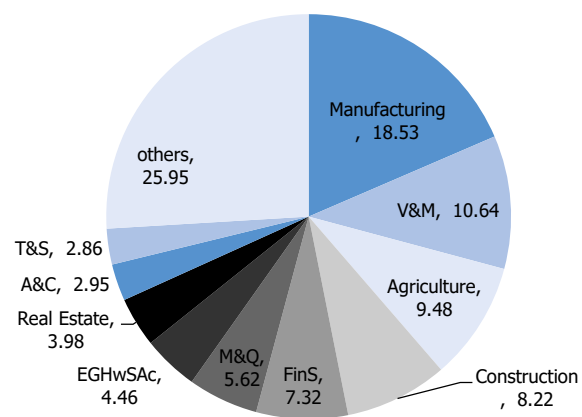


Figure 6. Quarterly real GDP share by sub-sector (%)



Source: GSO, KIS
V&M: Vehicles and motorcycles; FinS: Finance, Banking & Insurance; M&Q: Mining and Quarrying; EGHwSAC: Production & supply of electricity, gas, hot water, steam and air-conditioning; A&C: Accommodation & catering services; T&S: Transport and Storage.

Regarding the demand side, slowdowns in final consumption expenditure (FCE) and gross capital formation (GCF) characterized the overall move of real GDP in 2020, while the progress of net exports of goods and services (BOT) partly sustains the upward momentum of real domestic output. Under COVID19 era, it not surprising that both FCE and GCF, representing for consumption and investment desires, decelerated significantly compared to 2019. In detail, consumers tend to spend less and save more as they are pessimistic about future incomes, while business owners tend to expand their operation less as business prospects become more uncertain. Consequently, FCE and GCF values in real term increased modestly by 1.06% YoY and 4.12% YoY, contributing 0.78% and 1.43% to 2020 overall growth rate, much lower compared to their 2019 contributions. In the opposite, BOT recorded an impressive improvement and mainly mitigated the general slowdown of economy this year. Given the relatively high growth in export value compared to import value, BOT recorded a deficit of VND315,51tn, declining by 17.22% compared to 2019 level. Such reduction created a contribution of 1.76% to the

overall growth rate, which 5.95-percentage points higher compared to previous year and mainly offset the slowdown tendency from FCE and GCF.

Figure 7. Yearly real GDP structure by expenditure

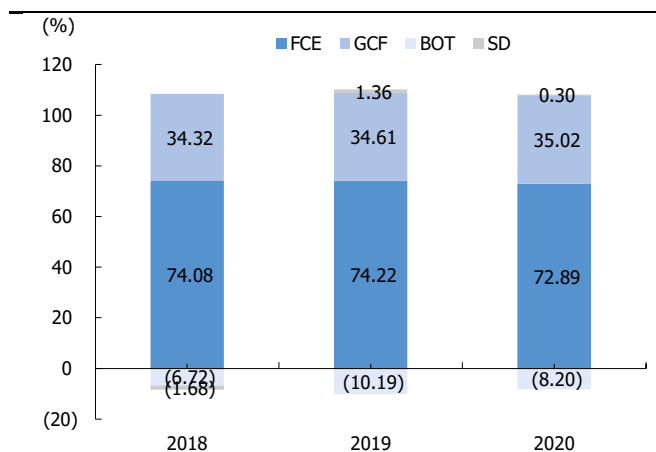
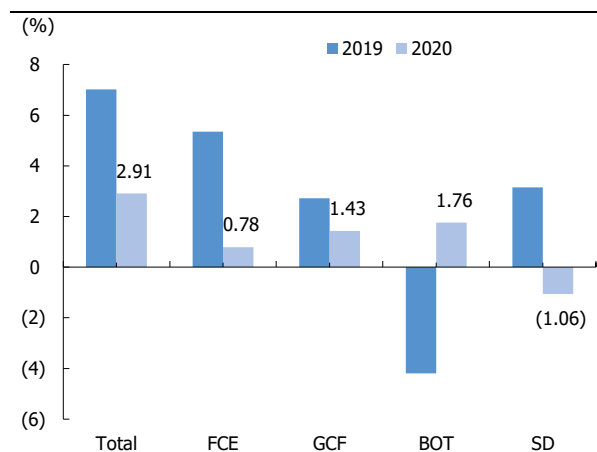


Figure 8. Yearly real GDP contribution by expenditure



Source: GSO, KIS

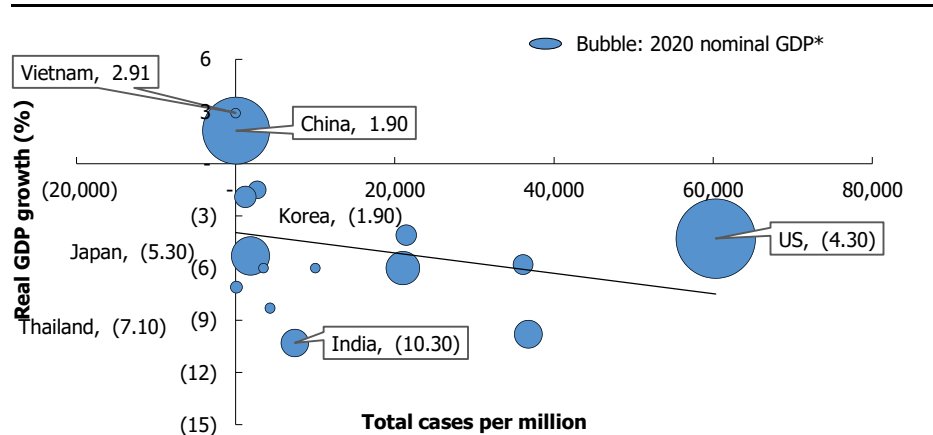
FCE: Final consumption expenditure; GCF: Gross capital formation; BOT: Net exports of goods and services; SD: Statistical discrepancy.

Regarding determinants of 2020 economic growth of Vietnam, we state some reasons as follows. First and most important, a well-controlled pandemic within the country retains the growth of domestic demand in consumption and investment at acceptable rates in the context of the global COVID19 slump. Second, the impressive export growth rate, likely reflecting the consistent external demand for domestic products and export structure change toward higher-value products, improves the trade balance and consequently fosters the gross domestic products.

PREDICTION

We state some pull and push determinants of the real GDP growth rate in 2021 as follows: **COVID19 remains the vital role in determining not only Vietnam but also global economic activities in the next year.** 2020-late witnessed some positive signals in developments and usages of promising vaccines such as Pfizer/BioNTech, Moderna, AstraZeneca, giving us hope to end the pandemic in 2021. However, the new virus variants will dampen the vaccination effort to bring the global economy back to normal soon. Hence, the domestic and external demand for Vietnam products seems to be associated with the pace of vaccine distribution and the complexity of new virus variants.

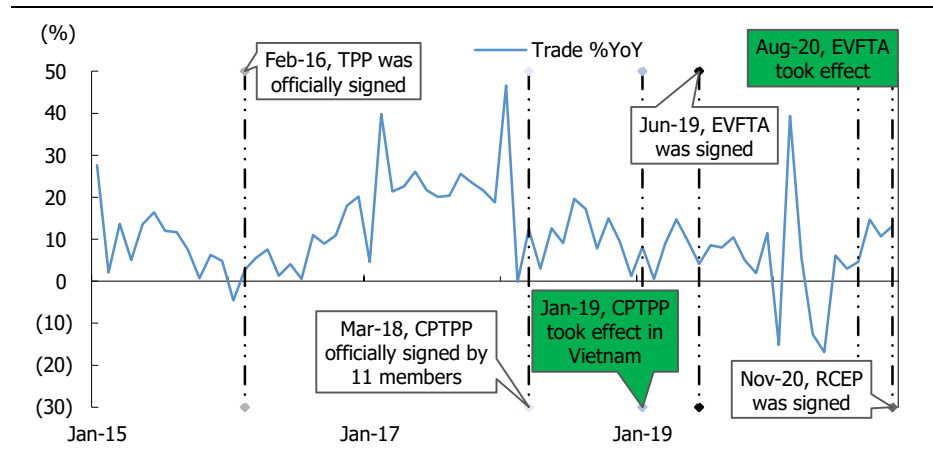
Figure 9. GDP growth and the COVID-19 pandemic in 2020



Source: [IMF](#), GSO, KIS
 * Vietnam GDP growth data was collected from GSO, GDP growth rates of other countries were collected from IMF world economic outlook.

Promising free trade agreements (FTAs), such as CPTPP, EVFTA, RCEP, are expected to facilitate trade activities in 2021 and their contributions will become more prominent in case of a successful control of global pandemic.

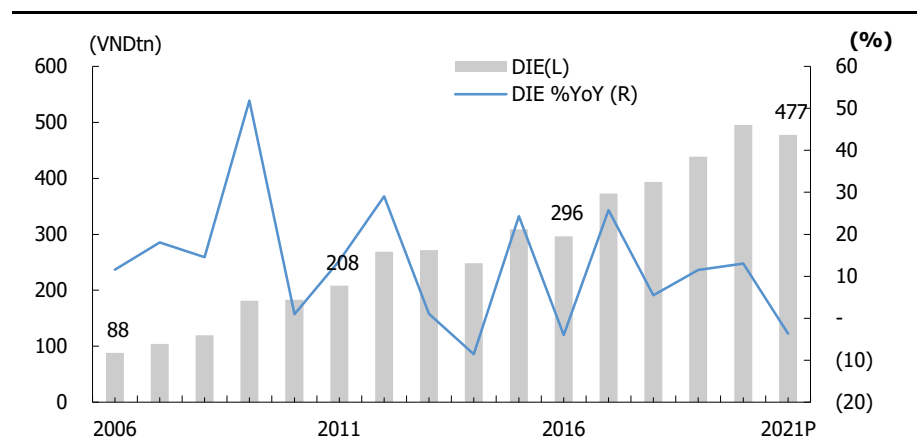
Figure 10. CPTPP, EVFTA, and RCEP milestones



Source: [Vietnam WTO Center](#), KIS
 RCEP: Regional Comprehensive Economic Partnership, USMCA: United States-Mexico-Canada Agreement (USMCA/CUSMA/T-MEC), USKOR: Korea, Republic of - United States, USAUS: United States - Australia, USISR: United States - Israel.

Vietnam new authorities will start their term from 2021 and investors are anticipating that development and investment expenditure (DIE) will experience significant move in the first year of new term. The increase in DIE is expected to boost the domestic demand in short-term and facilitate business activities in a longer-term. Also, fiscal spending of major countries, such as US, China, and Japan, are more likely to increase significantly as their new governments will step into first terms in 2021.

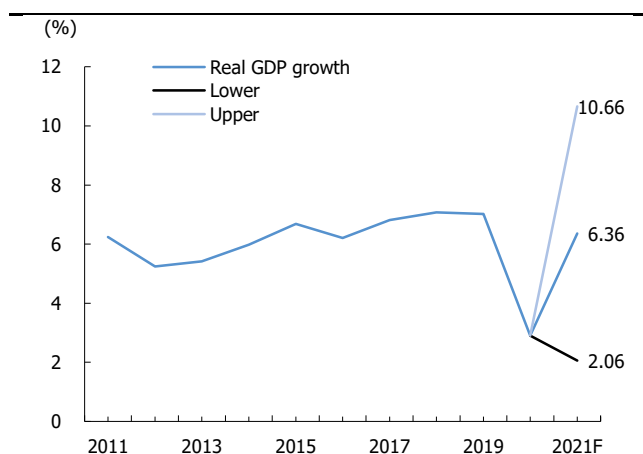
Figure 11. Historical yearly development investment expenditure



Source: MoF, GSO, KIS
DIE: Development Investment Expenditure.

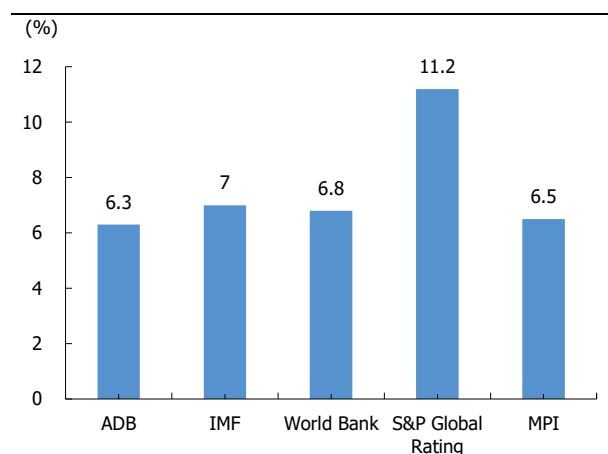
Given above assumptions, we predict that Vietnam real GDP growth rate to post 6.36% in 2021.

Figure 12. Historical yearly Vietnam real GDP growth



Source: IMF, World Bank, ADB, S&P Global Rating, GSO, KIS
MPI: Vietnam Ministry of Planning and Investment.

Figure 13 2021 GDP growth by international economic institution

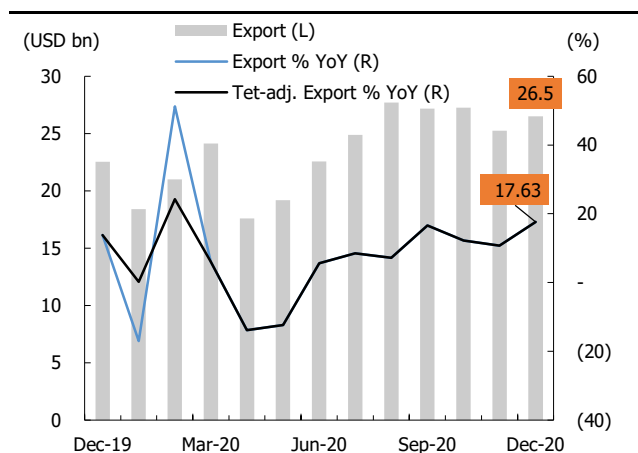


II. Trade to slow down

Trade growth continued accelerating

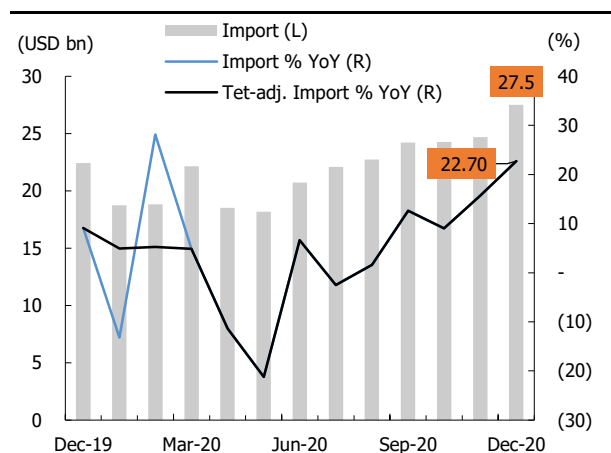
In December, trade activities witnessed a significant acceleration, while the trade balance turned into a deficit after a surplus streak lasting seven months. According to GSO, trade value magnified its upward momentum in this period by rising by 20.16% YoY, 7.03%-higher than November due to material accelerations in both export and import value. In detail, export and import rose by 17.63% YoY and 22.70% YoY, 6.90%- and 7.01%- higher than previous growths, to post USD26.50bn and USD27.50bn, respectively. Therefore, the trade balance recorded a deficit of USD1.00bn this month, marking a break in the surplus chain starting from May.

Figure 14. Vietnam monthly export



Source: GSO, KIS

Figure 15. Vietnam monthly import

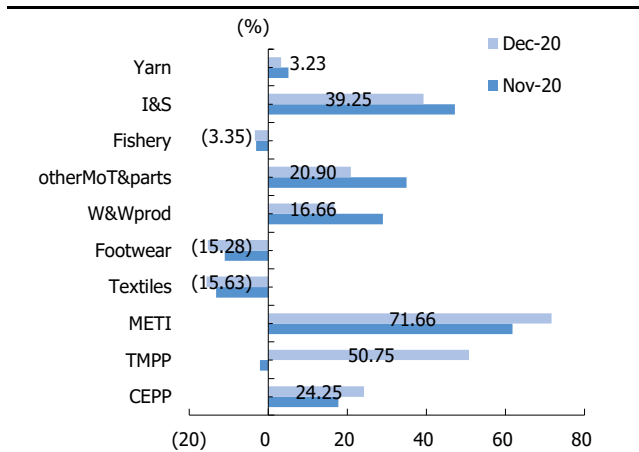


Source: GSO, KIS

Although most of the essential items witnessed slowdowns (four over ten) and even deteriorations (three over ten), the impressive growth in the overall export value this month was determined by striking improvements in three items, including computers, electrical products and parts (CEPP), machines, equipment, tools and instruments (METI), and telephones, mobile phones and parts (TMPP). In detail, METI and CEPP strengthened their upward momentums by rising by 71.66% YoY and 24.25% YoY, 9.89%- and 6.54%- higher than November, while TMPP even made an outstanding turnaround by surging by 50.75% YoY, much higher than the previous contraction to post USD4.40bn in this period. These improvements mitigated not only slowdowns from yarn, iron and steel (I&S), other means of transportation and parts (otherMoT&parts) and wood and wooden products (W&Wprod) but also deteriorations from fishery, footwear, and textiles. More specifically, yarn, I&S, otherMoT&parts, and W&Wprod slowed their uptrend by increasing by 3.23% YoY, 39.25% YoY, 20.09% YoY, and 16.66% YoY, while fishery, footwear, and textiles were deteriorating as decreasing by 3.35% YoY, 15.28% YoY, and 15.63% YoY.

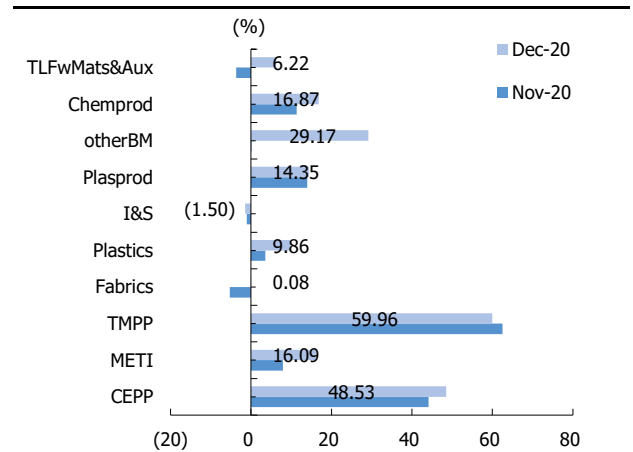
General accelerations in most essential items, especially in METI and CEPP, characterized the move of import activity this month. Eight over ten items in the major basket experienced improvements in December when their growth rates became more positive or less negative. Given the two biggest weights in import structure, accelerations of CEPP and METI were the main reasons for enlarging overall upward momentum. In detail, CEPP and METI rose by 48.53% YoY and 16.09% YoY, 4.42%- and 8.21%- higher than previous growth rates and posted USD6.40bn and USD4.20bn, respectively. Also, some other items made noticeable progress and contributed considerably to overall acceleration in this month, such as chemical products (Chemprod +16.87% YoY), other base metals (otherBM +29.17% YoY), plastic products (Plasprod +14.35% YoY), and plastics (+9.86% YoY).

Figure 16. Top 10 export item: growth rates (% YoY)



Source: GSO, KIS

Figure 17. Top 10 import item: growth rates (% YoY)



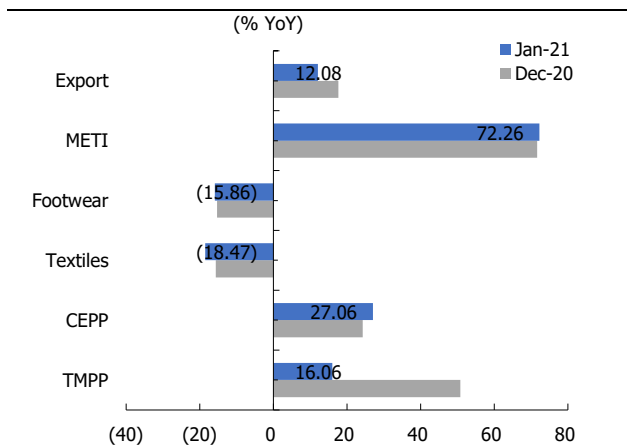
Source: KIS, GSO

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.

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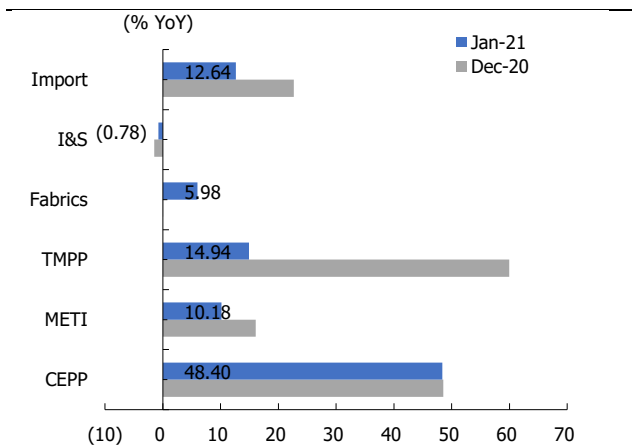
- The U.S second stimulus package will sharpen after the presidential inauguration of Biden and is predicted to boost consumer confidence in the first quarter of 2021. However, new coronavirus variants are more likely to prompt governments to increase restrictions, consequently slowing trade activities down.
- We predict export and import to grow by 12.08% YoY and 12.64% YoY in January 2021, respectively

Figure 18. Vietnam export forecast



Source: KIS, Bloomberg

Figure 19. Vietnam import forecast



Source: KIS, Bloomberg

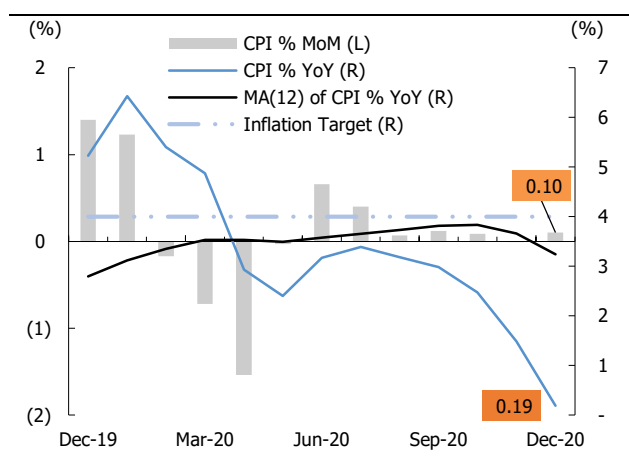
III. CPI modestly increases

High energy prices boosted CPI

According to GSO's release, the Consumer Price Index (CPI) witnessed a modest increase compared to the previous month due to opposition between food and foodstuff (F&Fs) and traffic moves. After a short halt in November, CPI returned to its recent upward momentum by rising by 0.10% MoM. The opposition between the upward pressure from F&Fs and downward pressure from traffic mainly contributed to the overall increase this period. More specifically, while F&Fs turned into a reduction of 0.41% MoM from a slight increase in November, the traffic sub-index made a significant rebound, after a 3-month declining streak, by soaring by 2.45% MoM.

Regarding the comparison to the price level in the same period last year, the CPI sustained its slowdown starting from July. Specifically, CPI increased by 0.19% YoY in this period, 130bps-lower than the previous month. Hence, the 12-month rolling inflation rate posted 3.24%, 76bps-lower than the authorities's target rate of 4%.

Figure 20. CPI Changes



Source: GSO, KIS

Table 1. Inflation by Sectors

Item	Weight (%)	% MoM	% YoY
Food and foodstuff	36.12	(0.41)	2.68
Beverage and cigarette	3.59	0.13	1.14
Garment, Footwear, hat	6.37	0.15	0.37
Housing and construction materials	15.73	(0.03)	0.19
Household appliances and goods	7.31	0.01	0.67
Medicine and health care	5.04	0.01	0.51
Traffic	9.37	2.45	(11.68)
Postal services & Telecommunication	2.89	(0.00)	(0.52)
Education	5.99	0.00	4.15
Culture, entertainment and tourism	4.29	(0.10)	(2.43)
Other goods and services	3.3	0.12	2.10
Consumer Price Index		0.10	0.19

Source: GSO, KIS

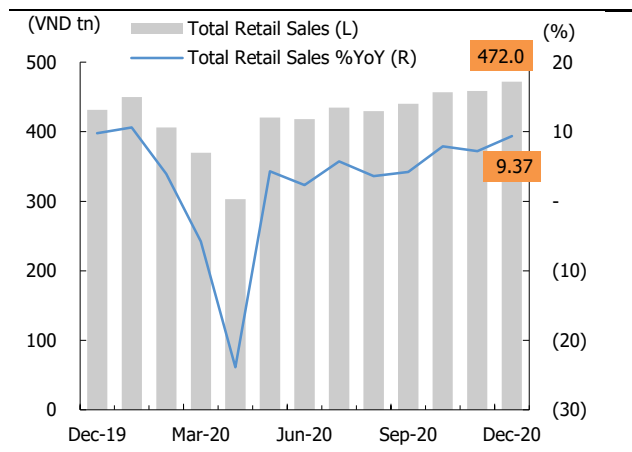
IV. Retail sales sustains upturn

Retail sales gained momentum

The upward momentum of retail sales became more robust in this period due to the acceleration in the retail sector and softening downturns in accommodation and catering (A&C) and traveling activities. According to GSO's estimates, the retail sales in December witnessed an acceleration by rising by 9.37%, 218bps-higher than the previous month and posting VND472.04tn. The general improvements across all sectors determined this progress of retail sales in this period. Given the largest share, the retailing activity was the most contributor as increasing by 13.79% YoY, 251-bps higher than previous and added 10.37 percent point to the overall growth. Besides, despite the laggard role in recent months, A&C and traveling activities were warming up as contracting at rates 84bps- and 19bps-lower than November, respectively.

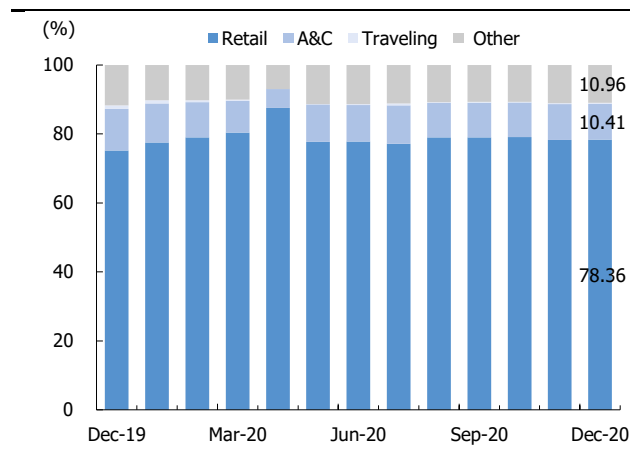
Regarding the structure, the retail value kept overwhelming with the largest share at 78.36% of the total, while A&C and traveling sectors jointly consisted of 21.37% of total revenue.

Figure 21. Monthly retail sales



Source: GSO, KIS

Figure 22. Components of retail Sales



Source: GSO, KIS

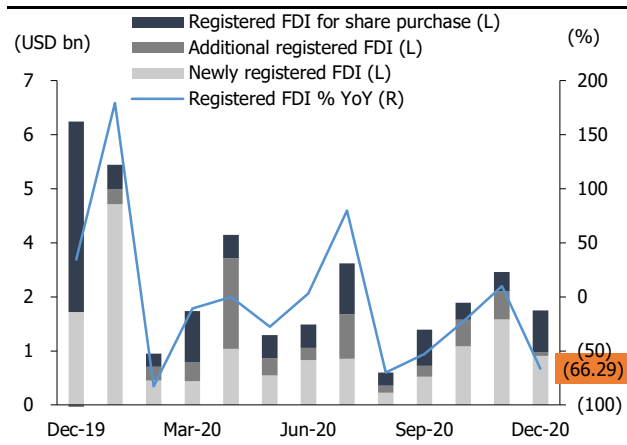
V. Strong tailwinds for FDI in 2021

Disbursed FDI accelerated at an all-time high

December marked a new record for foreign investment activity as FDI disbursement reached the highest level by the end year even the COVID-related investment risk still lingering. Meanwhile, restrictions on global mobility, due to the outbreak in early December, continued to drag on the FDI registration, down to a 3-month low.

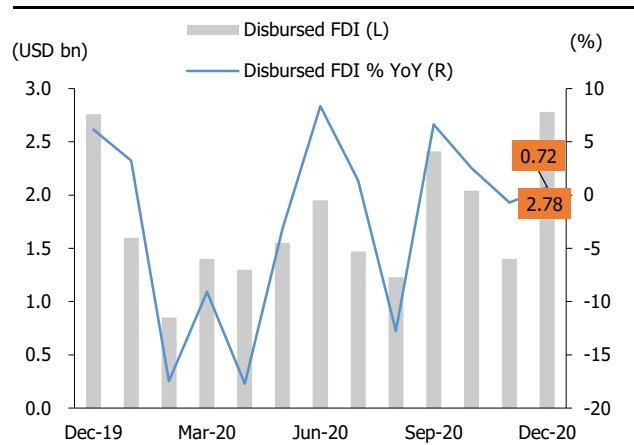
More specifically, about USD1.09bn being registered for new projects in the month, recording a 3-month low, while raising capital for existing projects plunged to a 1-year low of just USD0.08bn. On the contrary, foreign investors were paying more attention to M&A and stock purchase activities as a total amount of share purchase accelerated to a 5-month high of USD0.93bn, pushing the total registered capital to USD2.10bn in the month, decreasing by 66.29% YoY. On the other hand, FDI disbursement ended the year at its all-time high level, at USD2.78bn, increasing by 0.72% YoY, respectively.

Figure 23. Registered FDI and components



Source: MPI, KIS

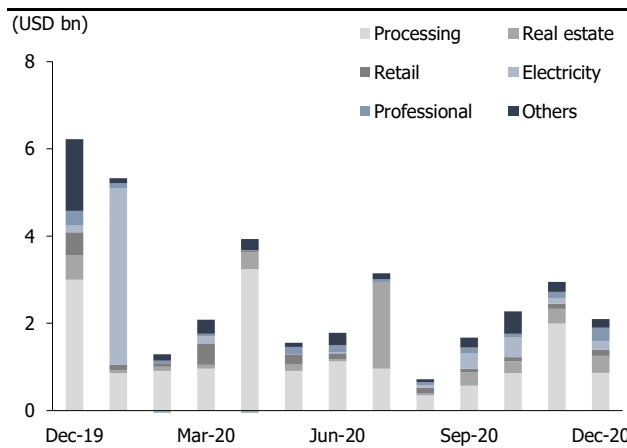
Figure 24. Disbursed FDI



Source: MPI, KIS

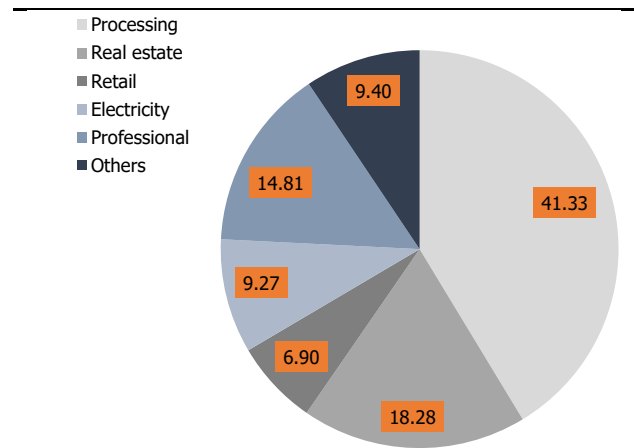
Manufacturing sector saw the largest month-over-month decline, compared to other sectors, in new FDI in December, recording just USD0.87bn compared to nearly USD2bn in November. Its contribution to the total FDI also declined to 41.31% from more than two-third in the prior month. Meanwhile, the real estate, retail, and electricity & distribution sectors recorded a 5-month high of USD0.38bn, a 6-month high of USD0.15bn, and a 2-month high of 0.20bn, respectively. To a greater extent, FDI registration in the professional services sector climbed to a 1-year high, posting USD0.31bn.

Figure 25. Registered FDI by sector



Source: MPI, KIS

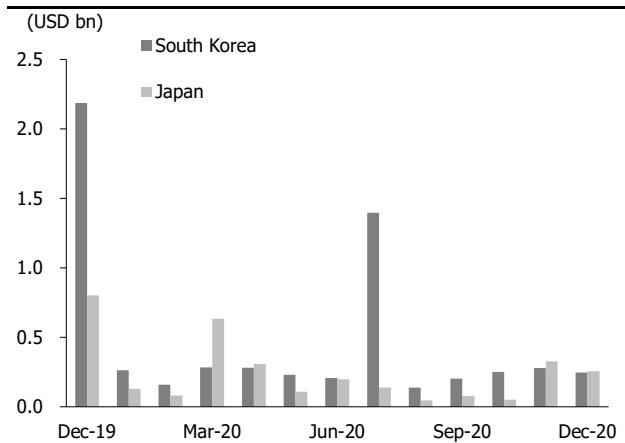
Figure 26. Structure of registered FDI in 2Q20



Source: MPI, KIS

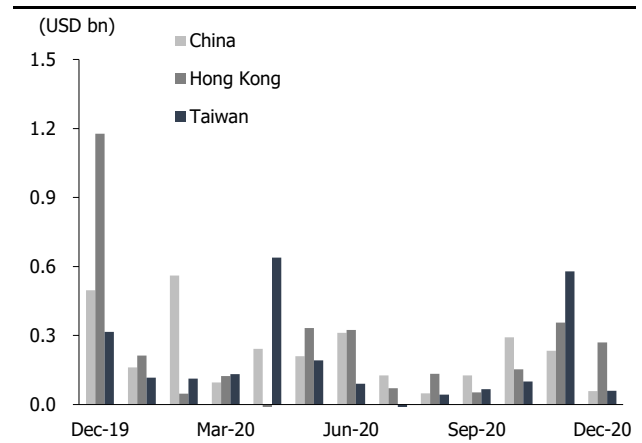
FDI registration from all major investors was visibly slowing down in December except for Singapore. The decline was seen most clearly from China and Taiwan investors with the registered amounts from these investors reaching 4-month lows of USD57mn and USD59mn, respectively. FDI inflows from Japan and Hong Kong also dropped significantly compared to November's levels, at USD0.26bn and USD0.27bn, followed by South Korea with USD0.25bn, respectively.

Figure 27. FDI inflows from South Korea, Japan



Source: MPI, KIS

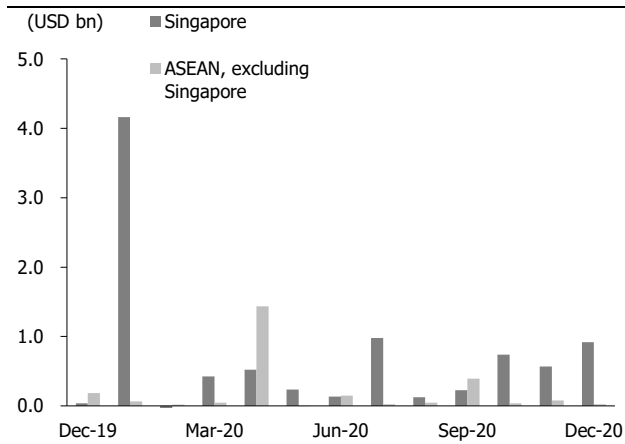
Figure 28. FDI inflows from China, Hong Kong, Taiwan



Source: MPI, KIS

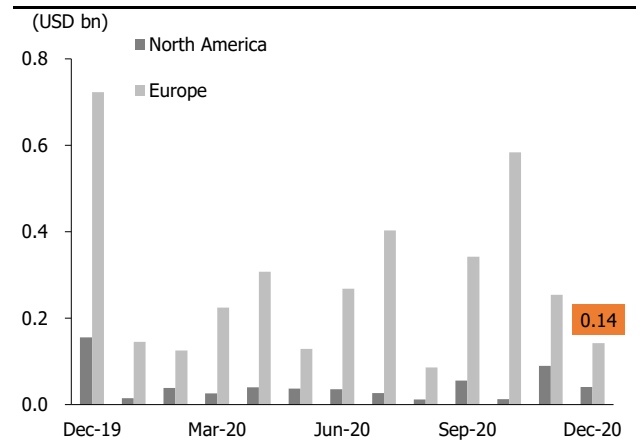
On the other side, registered capital from Singapore was rocketing to a 4-month high of USD0.92bn, which was just more than half of total registered FDI from ASIA investors in the month. European-based investors registered a total of USD0.14bn, significantly lower than USD0.25bn in November. The registered amounts from the ASEAN region (except Singapore) and North America (including the U.S. and Canada) remained insignificant, at just USD24mn and USD40mn, respectively.

Figure 29. FDI inflows from ASEAN partners



Source: MPI, KIS

Figure 30. FDI inflows from EU and North American

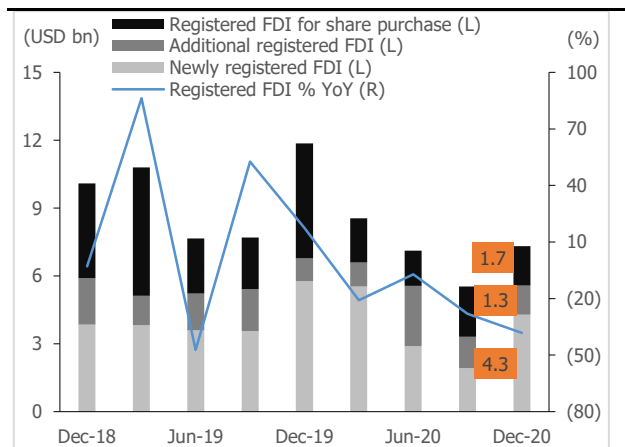


Source: MPI, KIS

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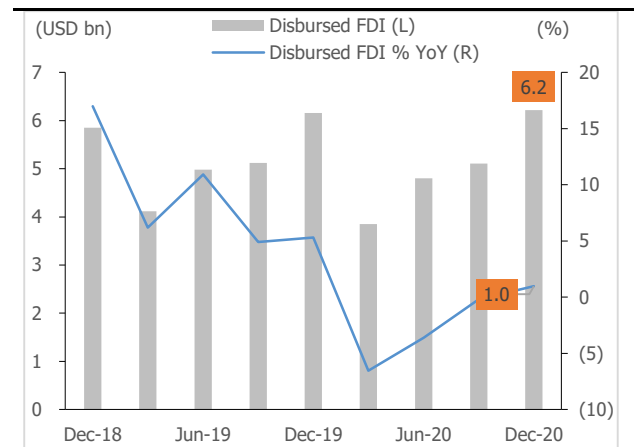
In the COVID-19 era, the global investment inflows have been at risk of collapsing due to unprecedented social-distancing measures and great uncertainty. FDI numbers in 2Q20 and 3Q20 showed a tremendous negative sentiment to global investors, in which new registration plunged to a multi-year low. From that trough in 3Q20, as we are learning fast to deal with the pandemic regarding health loss and economic cost, registered FDI also recovered significantly to the third-largest level in two and a half years. FDI disbursement even brought a more positive outlook as it peaked at an all-time high, at about USD6.2bn in 4Q20.

Figure 31. Registered FDI and components



Source: MPI, KIS

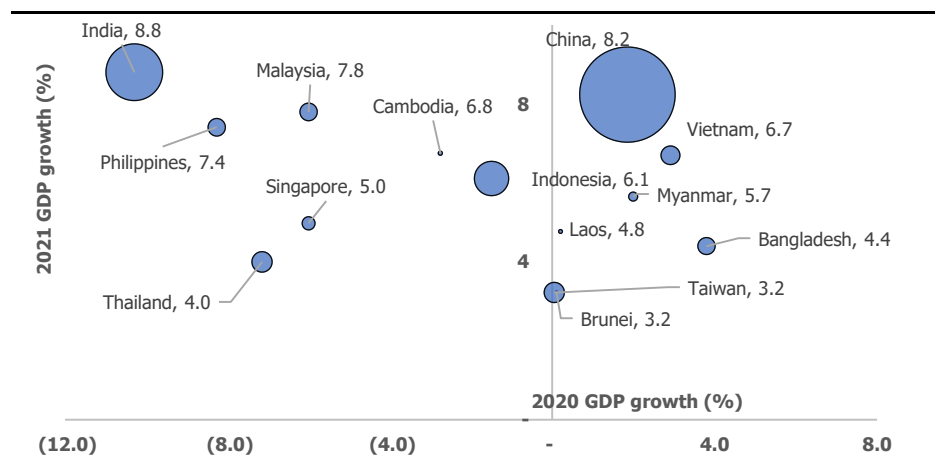
Figure 32. Disbursed FDI



Source: MPI, KIS

Furthermore, the 2020-2021 growth of Vietnam's economy is among the global highest, much better than other peers. This is definitely a strong point to make Vietnam a better position to attract global investors.

Figure 33. 2020-2021 GDP growth of Vietnam versus other peers



Source: IMF, KIS

Global supply chain shift is taking place

Vietnam is also benefiting significantly from the ongoing global supply chain shift and several FTAs being in progress or already effective like CPTPP, EVFTA, and the newest RCEP. Some biggest names, most notably the giant Apple, announced they would re-allocate a part of its supply chain to Vietnam. Not long after that call, Luxshare ICT and Foxconn, two Apple suppliers for AirPods and iPhone productions, have accelerated their investment in Vietnam from 2H20, while Pegatron, another name in the top 5 largest electronic parts and component manufacturers, has planned to invest about USD1bn to Vietnam plant by 2027. Besides those names listed above, other Apple's vendors, including Wistron Corporation, Hon Hai Precision Industry Co. Ltd, GoerTek, and Compal Electronics, are already present in Vietnam. This trend would most likely exaggerate in 2021 if the global pandemic conditions are improving fast, which rely on the progress of COVID-19 vaccine distribution globally.

Table 2. Investments and operations of Apple's vendors in Vietnam

Year	Month	LUXSHARE (AirPods Production)	Foxconn (iPhones Production)	
2016	10	<ul style="list-style-type: none"> Luxshares ICT(Vietnam) established 		
	01		<ul style="list-style-type: none"> Foxconn purchased the land use right of 250,000 square meters in Bac Giang by USD16.5mn. 	
2019	07	<ul style="list-style-type: none"> Luxshares ICT (Vietnam) increased paid capital with unspecified amount 		
	08	<ul style="list-style-type: none"> Luxshares ICT (Nghe An) established. Paid Capital USD70mn: Cable and Charger for iPhones 		
		<ul style="list-style-type: none"> Merry & Luxshares (Vietnam) established. Paid Capital USD24mn 		
	09	<ul style="list-style-type: none"> Merry Electronics (Taiwan) 51%, Luxshares 49% AirPods production 		
2020	03	<ul style="list-style-type: none"> AirPods Pro Production 		
	04	<ul style="list-style-type: none"> Luxshares ICT (Nghe An) Start operation Luxshares ICT (Vietnam) increased capital about USD65mn Luxshares ICT (Van Trung) increased capital with unspecified amount 		
	06	<ul style="list-style-type: none"> Luxshares ICT (Nghe An) increased capital with unspecified amount: AirPods, Apple Watch Production Luxshares and Goertek jointly produce Apple's new earphone, AirPods Studio (unconfirmed news) 		
	7-8	<ul style="list-style-type: none"> Senior Apple executives visited Luxshare-ICT (Vietnam) several times to investigate iPhone production conditions. Apple requested to build dormitories to secure production capacity and increase the number of workers from 28,000 to 50,000-60,000 currently 	Foxconn proposed to the authority to: <ul style="list-style-type: none"> Establishing 600 ha industrial park in Bac Giang Expand Binh Xuyen 2 Industrial Zone phase II in Vinh Phuc Spent more than USD325mn to build housing for workers in Bac Giang, Bac Ninh and Vinh Phuc 	
	11	<ul style="list-style-type: none"> Media reported coverage of possible 20% of iPhones 12mini production through partnership (or acquisition) with China's Wistron 	<ul style="list-style-type: none"> Foxconn invested USD270mn to its subsidiary FuKang Technology Company Limited. 	
	2021	1H	<ul style="list-style-type: none"> AirPods 3 (3rd generation model) will be produced. 	<ul style="list-style-type: none"> Assembly line for iPad and MacBook is expected to go into operation
		2H	<ul style="list-style-type: none"> New AirPods Pro to be produced 	

*Source: Press reports by year. KIS Vietnam Securities

VI. IIP heads to strong performance in 2021

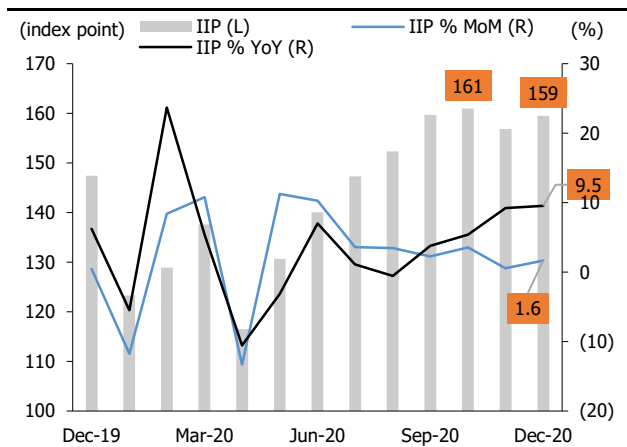
IIP growth continued after a month pause

After slowing down in November, based on revised data, the industrial production again climbed nearly to its all-time high recorded in October, even under pressure from a slump in the electronics industry. As of December end, IIP increased by 1.68% MoM and 9.52% YoY.

Most notably, expansion in the manufacturing sector continued further, reaching the second-highest level and increasing 13.13% YoY. Meanwhile, with a noticeable recovery in the extraction of crude oil and natural gas, production in the mining sector reached a 4-month high, although still plunging 10.41% YoY.

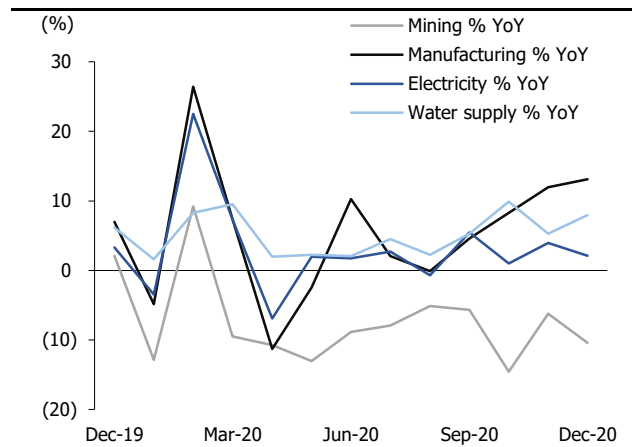
Besides, electricity production & distribution and water supply expanded at a modest pace by 2.12% YoY and 7.95% YoY, respectively.

Figure 34. Industrial production index



Source: GSO, KIS

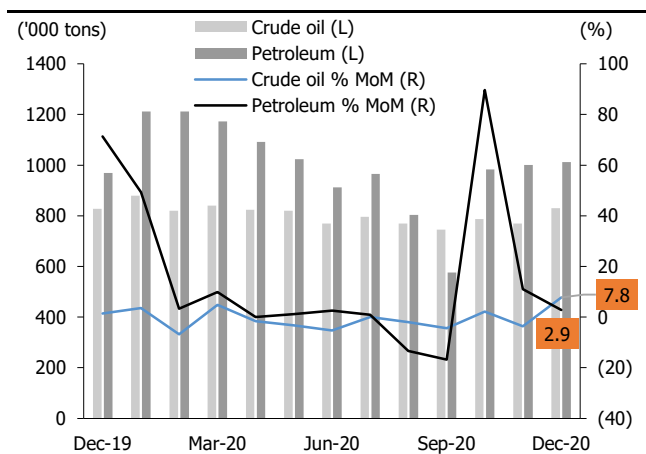
Figure 35. Level-1 sectoral components



Source: GSO, KIS

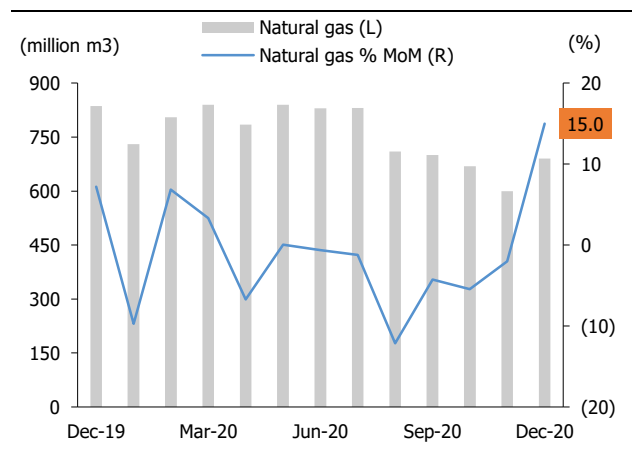
Further details about major industries and also main industrial products are as follows.

Figure 36. Production of crude oil and petroleum



Source: KIS, GSO

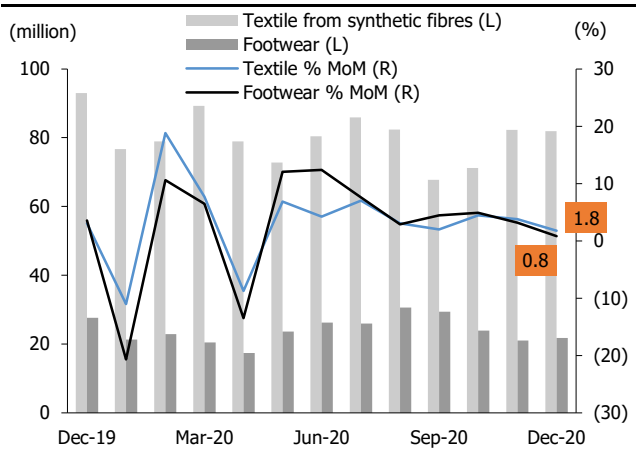
Figure 37. Production of natural gas



Source: KIS, GSO

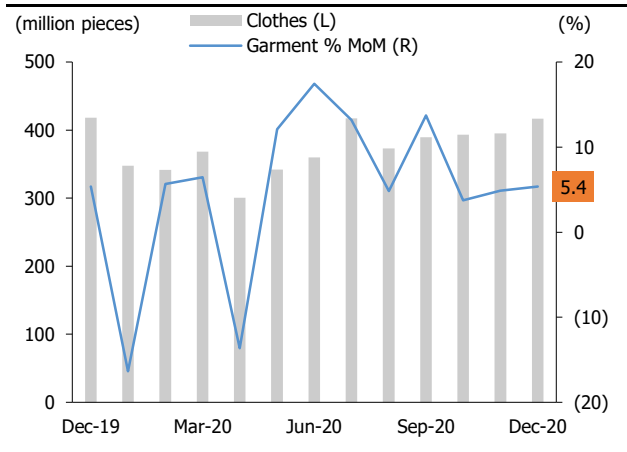
The operation of Sao Vang – Dai Nguyet gas field in late-November was boosting the production of crude oil and natural gas to several-month highs, in which the former increased by 7.8% MoM to a 9-month high and the latter even rose by 15.0% MoM to a 3-month high. Also thanks to a significant increase in domestic petroleum prices recently, the petroleum production continued increasing by 2.9% MoM to a 7-month high.

Figure 38. Production of textile and footwear



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

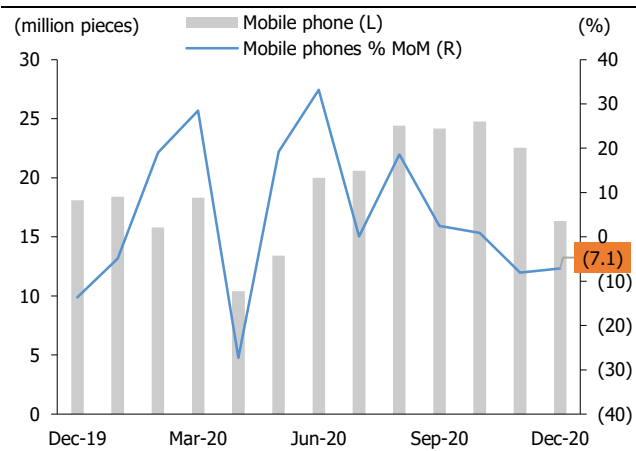
Figure 39. Production of clothes



Source: GSO, KIS

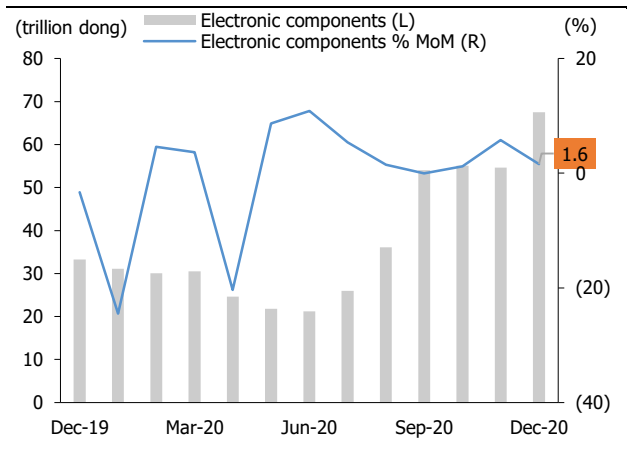
The expansion in the textile, garment, and footwear industries continued for an eight-consecutive month in December, but the upward momentum was getting limited for textile and footwear industries. Accordingly, the month-over-month growths in these industries were the slowest in the 8-month period, at 1.8% MoM and 0.8% MoM, respectively. Besides, garment production expanded by a 3-month high, about 5.4% MoM.

Figure 40. Production of mobile phones



Source: GSO, KIS

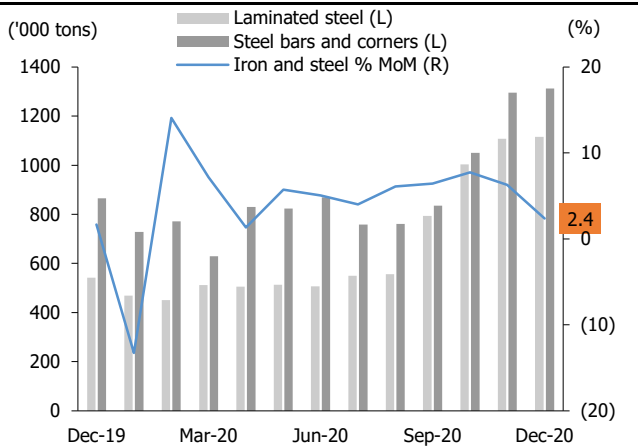
Figure 41. Production of electronic components



Source: GSO, KIS

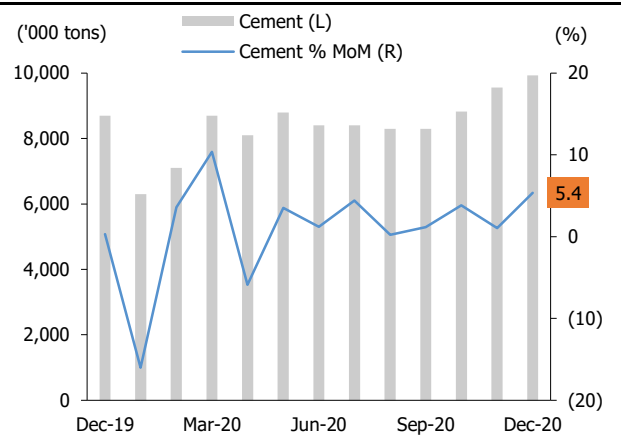
On the contrary, the production of mobile phones and parts dropped at a sharp pace for the third straight month, by 7.1% MoM, to a 5-month low. Meanwhile, production of electronic components continued setting a new high record, although its growing pace was limited at just 1.61% MoM.

Figure 42. Production of steel products



Source: GSO, KIS

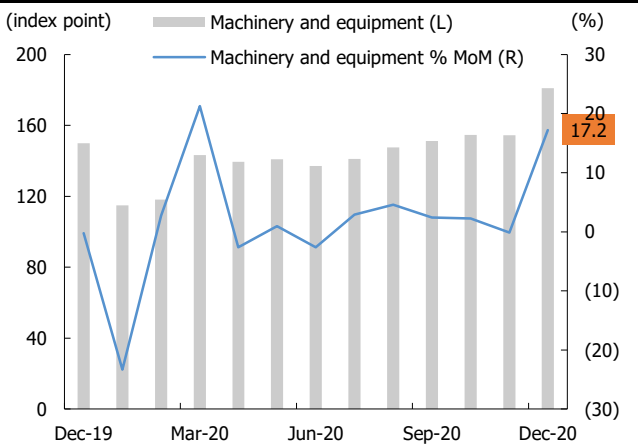
Figure 43. Production of cement



Source: GSO, KIS

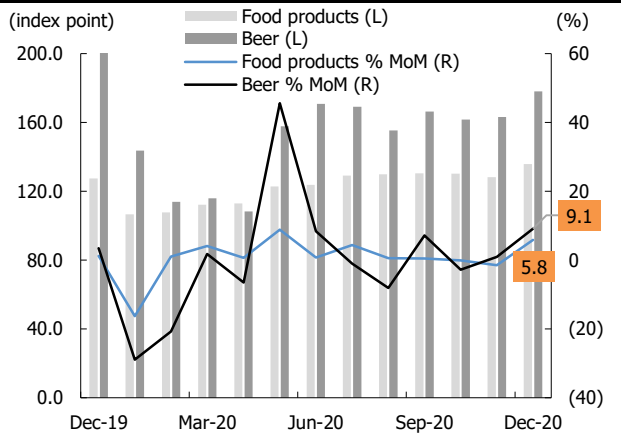
The continuing upward trend in the construction materials industries showed no signs of stopping in December as the production of steel and cement were at their all-time peak, increasing by 2.4% MoM and 5.4% MoM, respectively.

Figure 44. Production of machinery industry



Source: GSO, KIS

Figure 45. Production of F&B industries



Source: GSO, KIS

Other industries, including the food & beverage and machinery industries, were also growing fast recently thanks to robust domestic demand. While recovering domestic tourism and leisure activities boosted demand for the F&B industry, strong export demand was driving the machinery production to the highest level. More specifically, the production of food products and beer increased by 9.1% MoM and 5.8% MoM, the machinery production soared by 17.2% MoM.

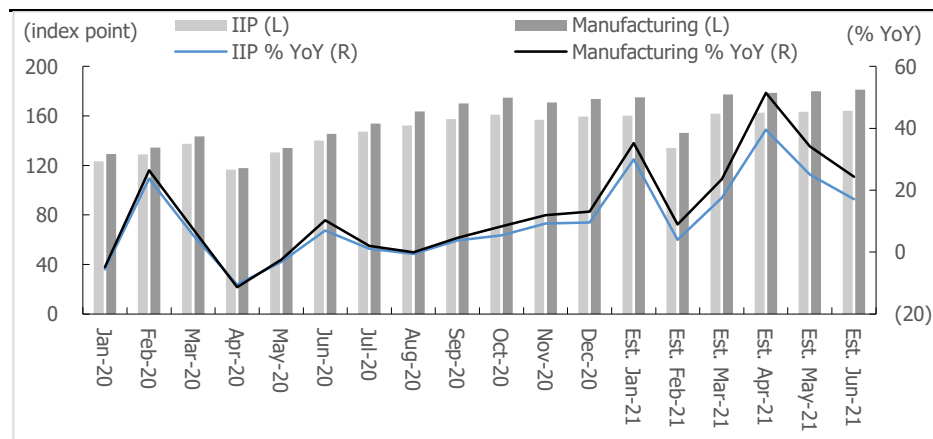
PREDICTION:

Sustainability in industrial growth was the main point in December as most industries stayed in growth territory except for the electronics industry (regarding month-over-month basis), which was dragged by a slowdown in mobile phone production.

Low base in 1H20 supports for IIP fast-growth in 2021

Looking forward to 2021, we believe that the industrial sector will continue to have more space for growth, especially in 1H21. Taking a very low production base in 1H20 into account due to a severe COVID-19 impact, assuming the industrial growth keeps a 3-month average growing pace in the 1H21, the industrial growth in this period will be extraordinary.

Figure 46. Consumption levels of major industries in Sep. and Dec.



Source: GSO, KIS

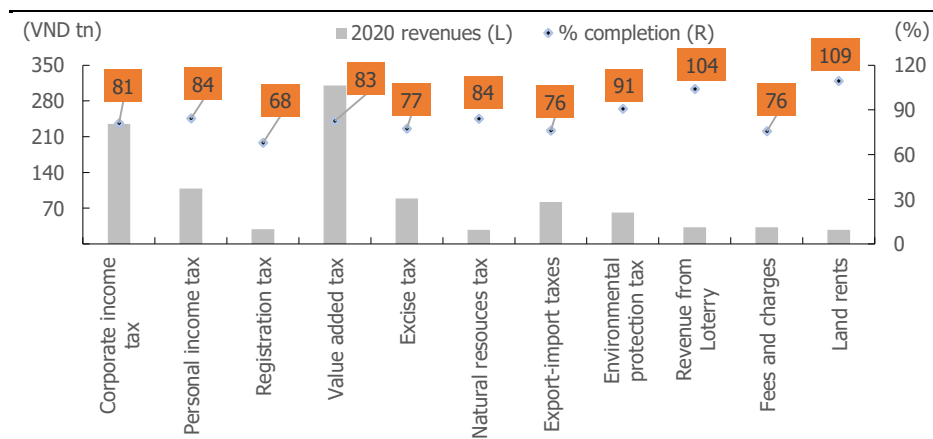
VII. Budget deficit expands to VND363tn

With a number of support measures to households, corporates, and other entities being affected by the COVID-19 pandemic, the state budget deficit was widening greatly in 2020 mostly due to insufficient state revenues.

Insufficient state revenues due to government support measures

According to GSO's latest update, by the end of 2020, the state budget revenues are estimated to reach VND1,323tn, about just 87.49% of 2020's plan, in which the delayed and reduced taxes for corporate income, personal income, and value-added taxes accounted for nearly three-fourth of the insufficiency.

Figure 47. Tax revenue sources

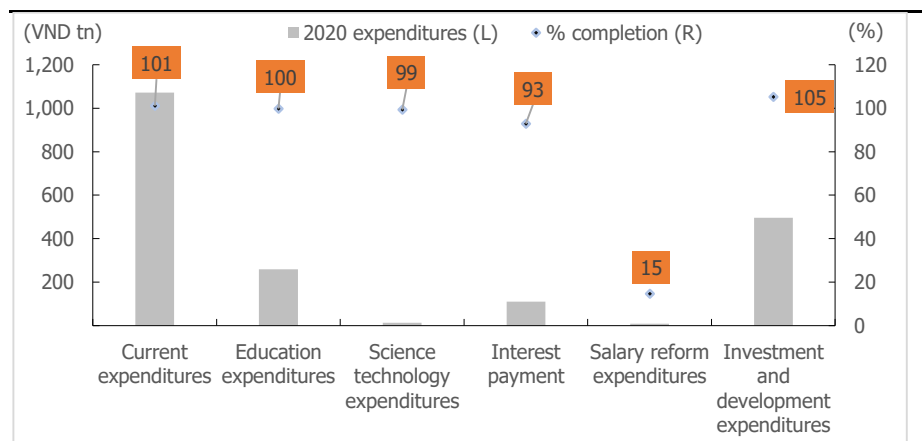


Source: MoF, KIS

State investment accelerated in 2020

Meanwhile, the state actual expenditure in the year posted VND1,686tn, fulfilling 96.5% of 2020's plan. It is noticeable that both current expenditures and investment & development expenditures both surpassed the original plan.

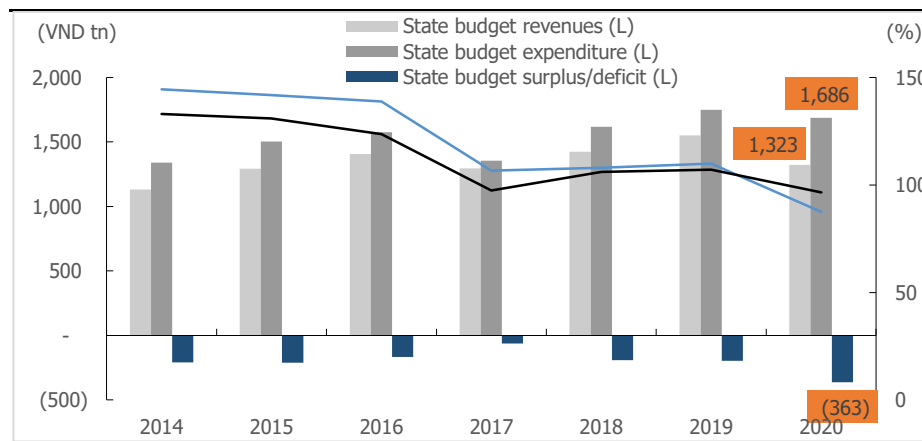
Figure 48. State budget expenditures



Source: MoF, KIS

As a result, by the year-end, the state budget deficit a surprisingly high level, of about VND363tn, which far exceeded previous years. However, a part of the deficit would be returned to 2021's state revenues after the Decree 41/2020/ND-CP, about tax and land rental payment extension, gets expired.

Figure 49. State budget deficit



Source: MoF, KIS

Macro scorecard

(USD bn, USD, %, % YoY)

	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	1Q20	2Q20	3Q20	4Q20	2017	2018	2019	2020
Real GDP growth			2.62			4.48	3.82	0.36	2.62	4.48	6.81	7.08	7.03	2.91
Registered FDI	3.15	0.72	1.67	2.27	2.95	2.10	8.55	7.12	5.54	7.32	35.88	35.47	38.02	28.53
GDP per capita											2,353	2,551	2,730	
Unemployment rate							2.22	2.73	2.50	2.37	2.21	2.21	2.25	2.48
Export	23.00	27.70	27.16	27.26	25.24	26.50	63.52	59.33	79.74	79.00	215.1	243.5	263.6	263.6
Import	22.00	22.72	24.20	24.27	24.69	27.50	59.69	57.41	69.02	76.46	213.2	236.7	254.4	254.4
Export growth	8.47	7.14	16.57	12.21	10.73	17.63	7.99	(6.82)	10.61	13.48	21.82	13.19	8.16	8.16
Import growth	(2.52)	1.58	12.58	9.00	15.69	22.70	4.03	(9.46)	3.74	15.81	21.85	11.01	7.41	7.41
Inflation	3.39	3.18	2.98	2.47	1.48	0.19	3.53	3.57	3.81	3.24	3.53	3.54	2.79	2.79
USD/VND	23,167	23,175	23,188	23,181	23,141	23,126	23,637	23,206	23,184	23,126	22,698	23,175	23,173	23,173
Credit growth	4.05	4.16	6.10	6.15	8.46	10.14	1.30	3.26	6.10	10.14	18.24	13.89	13.70	13.70
10Y gov't bond	2.88	2.88	2.52	2.21	2.26	2.01	3.24	3.07	2.65	2.01	5.14	5.07	3.37	3.37

Source: GSO, Bloomberg, FIA, IMF

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