

Economic Flash

Domestic output grows at modest rate

GDP grows modestly

GSO's figures show that Vietnam's real gross domestic product (GDP) sustained its modest growth rate at 4.48%, leaning back on the impressive improvements in taxes-less-subsidies (TLS) and industry and construction (I&C) items in the context of slowdowns in remaining sectors. We believe that the Decree 41 tax deferral policy drove the TLS's to grow notably this period.

CPI retreats after a three-month uptrend

According to GSO, the Consumer Price Index (CPI) in March experienced a reduction compared to the previous month mainly due to the decrease in the food and foodstuff (F&Fs) index, while the traffic index surged and push upward pressure on the overall price.

FDI accelerates to a new high since early 2020

Data released recently showed that FDI saw the best quarter in 1Q21 since early 2020. Far beyond our expectation, the newly registered capital recorded USD4.67bn in March, a 14-month high and increasing 124.27% YoY. Besides, the disbursement activity also rebounded to a 3-month high of USD1.6bn, up by 14.29% YoY.

Uneven rebound in IIP ends a bad quarter

After an interruption in industrial production activity in February, a rebound in March was less than expected and significantly lower than in late-2020. Accordingly, in March, IIP bounced back by 22.1% MoM and 3.86% YoY, but the absolute production level posted the lowest level in 8 months if excluding Tet's February.

KIS leading economic index

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

	1Q20	2Q20	3Q20	4Q20	2019	2020	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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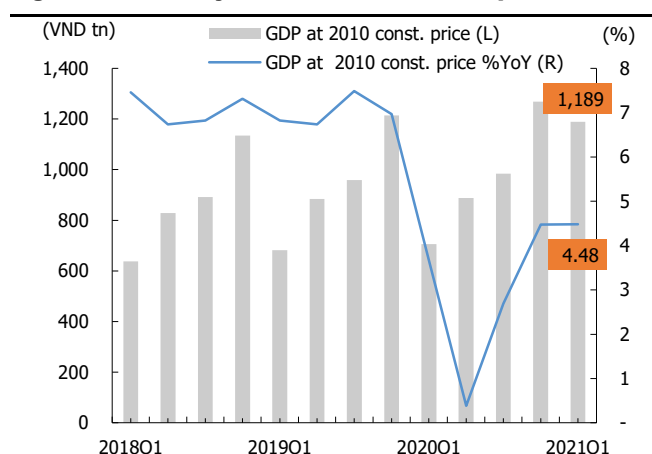
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I. GDP grows modestly

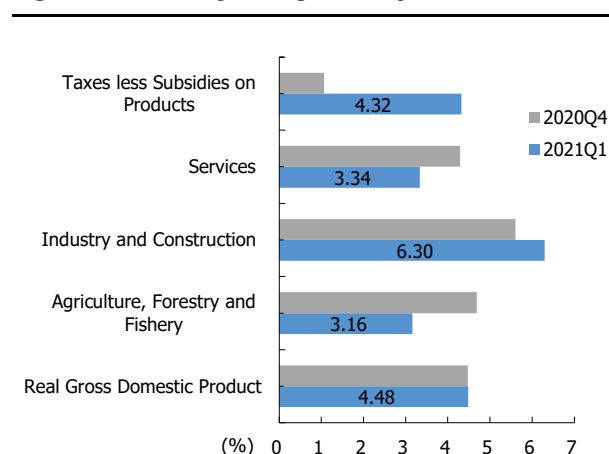
GSO's figures show that Vietnam's real gross domestic product (GDP) sustained its modest growth rate at 4.48%, leaning back on the impressive improvement in taxes-less-subsidies (TLS) and industry and construction (I&C) items. Other sectors, including services and agriculture, forestry, and fishery (AFF), partly reflect the glooming picture in domestic demand in the beginning months of this year as their growth rates recorded notable reductions compared to the growing paces in the last quarter of 2020. Specifically, the TSL and I&C rose by 3.25-percent points (pps) and 1.70-pps to post 4.32% YoY and 6.50% YoY, while services and AFF declined by 0.95-pps and 1.53-pps, posting 3.34% and 3.16%. Talking further about what drove the TLS's growth rate this period, we believe that the Decree 41 tax deferral policy, applying for 2020 value added tax (TAX) and corporate income tax (CIT), has partly shifted tax amount to 2021 fiscal year and hence caused a one-off increase in this item.

Figure 1. Quarterly GDP at 2010 constant price



Source: KIS, GSO
GDP values before 2021 were unrevised.

Figure 2. Quarterly GDP growth by sector



Source: KIS, GSO

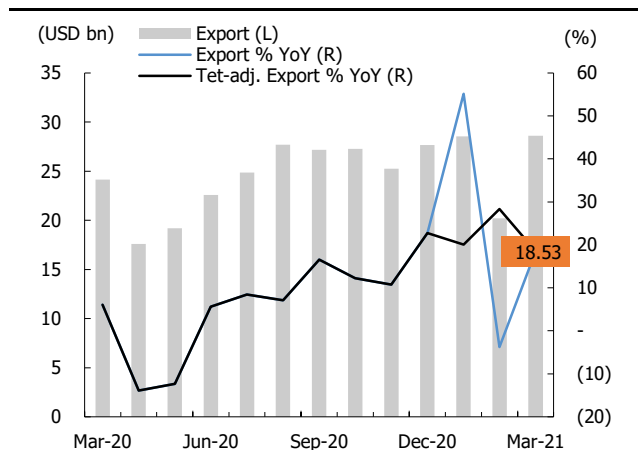
In comparison to the annual target at 6.00% pointed in the resolution 01 / NQ-CP 2021, the 1Q2021 domestic output growth rate was 1.52 percent points lower and thus put pressure on remaining quarters to finalize the 2021 economic growth rate to meet what the government desires.

II. Trade improves as Tet ends

Tet halts trade's upward momentum

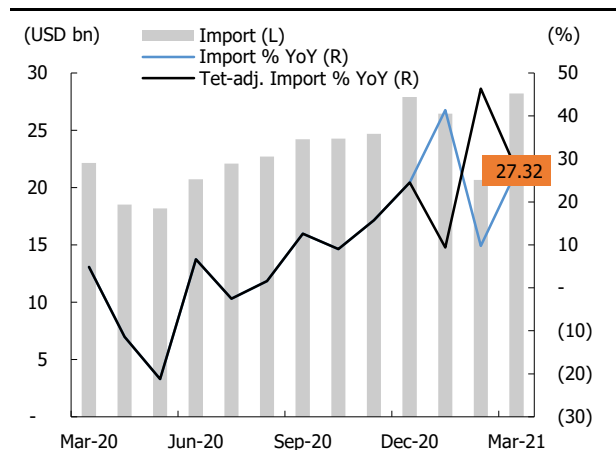
March' data shows that the trade activity experienced improvement this month as export made a turnaround and import accelerated. According to GSO's estimates, import value posted USD28.20bn, growing by 27.32% YoY, which nearly doubles the growth rate in February, while export even recorded a turnaround as rising by 18.53% YoY to posting USD28.60bn. As a result, the trade balance recorded a surplus of USD0.40bn this month.

Figure 3. Vietnam monthly export



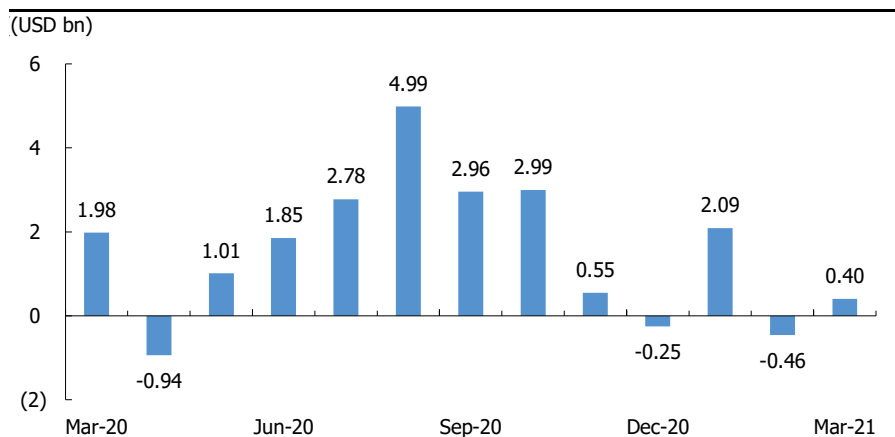
Source: KIS, GSO

Figure 4. Vietnam monthly import



Source: KIS, GSO

Figure 5. Vietnam monthly trade balance



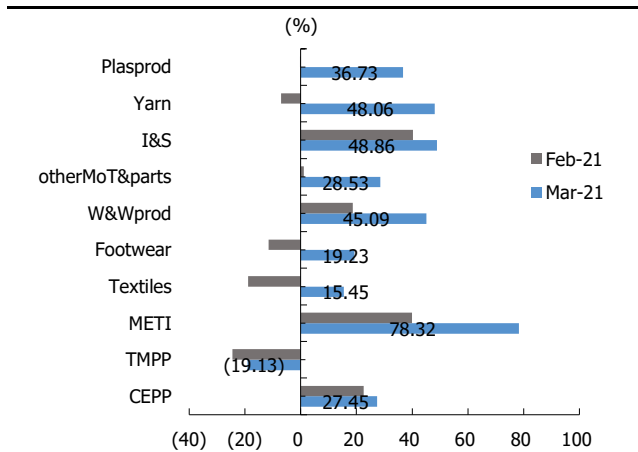
Source: KIS, GSO

The turnaround in goods sold overseas this month was characterized by recoveries in exporting labor-intensive products, such as footwear, textiles, and yarn and fishery item, while other major components such as CEPP, METI, and TMPP. CEPP and METI returned to their growth rates to pre-Tet extraordinary levels. Specifically, textile, footwear, and yarn rose by 15.45% YoY, 19.23% YoY, and 48.06% YoY to post USD2.70bn, USD1.66bn, and USD0.52bn, respectively. Those growth rates were much larger than corresponding reduction magnitudes posting in the previous period and consequently contributed to the overall export growth rate by 3.30-percent points (pps). Besides, wood and wooden products was a noticeable item as its export value posted USD1.43bn with the growth

rate of 45.09% YoY, roughly doubling one in February. Regarding to export's flagship products, including machinery and electronic products, CEPP and METI sustained their impressive growths as rising by 27.45% YoY and 78.32% YoY, while TMPP continued being the laggard this month by reducing by 19.13% YoY. This group totally contributed 6.35pps to the export growth this month.

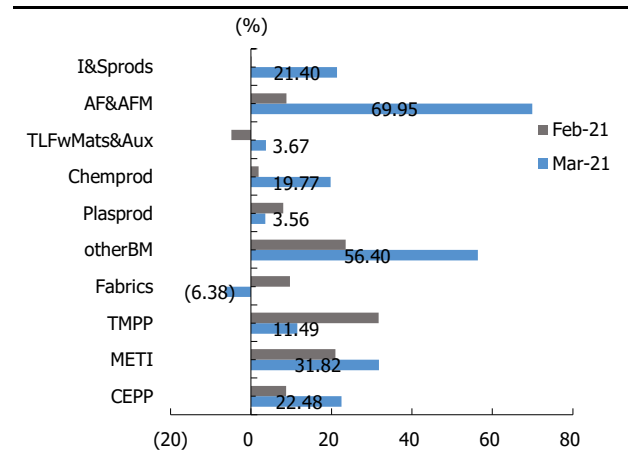
Seven over ten major items in import structure also experienced same accelerations with export's move but with fairly smaller rates. More impressively, import values of CEPP and METI rose by 22.48% YoY and 31.82% YoY, posting USD6.20bn and USD4.00bn, respectively. On the opposite direction, TMPP recorded a slowdown this month as its imported amount reached USD1.33bn, increasing by 11.49% YoY, 20.19pps-lower than previous rate and partly prevent the overall acceleration of import activity.

Figure 6. Top 10 export item: growth rates (% YoY)



Source: KIS, GSO

Figure 7. 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.

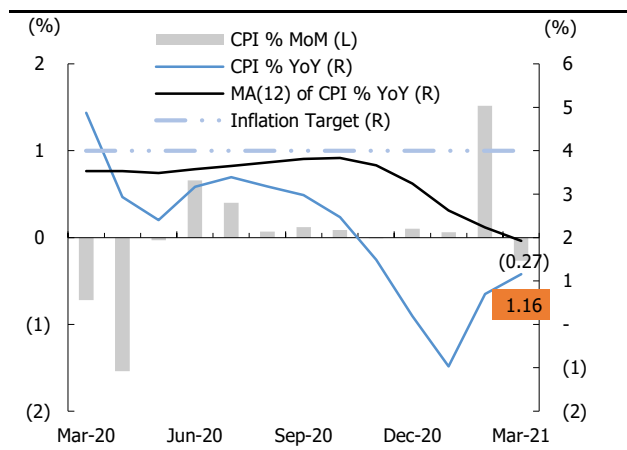
III. CPI records a reduction

CPI declined as F&Fs went down

According to GSO, the Consumer Price Index (CPI) experienced a reduction compared to the previous month mainly due to the decrease in food and foodstuff (F&Fs), while traffic surged and push upward pressure on the overall price index. CPI in March 2021 declined by 0.27% MoM, marking the first retreat after a three-month straight of uptrend. Regarding sectoral contributions, F&Fs recorded a notable contraction at 1.46% MoM as a result of the Tet-end, mainly driving the CPI down by subtracting 53 basis points (bps) from the monthly overall change. Oppositely, the traffic index increased by 2.29% MoM and added 21bps to the CPI's monthly change.

Considering yearly change, the CPI accelerating after confirming the important reduction in the first month of 2021 by rising 1.16% YoY, 46bps-higher than the previous rate. Hence, the 12-month rolling inflation rate posted 1.92%, 208bps-lower than the government's 2021 target rate of 4%.

Figure 8. CPI Changes



Source: GSO, KIS

Table 1. Inflation by Sectors

Item	Weight (%)	% MoM	% YoY
Food and foodstuff	36.12	(1.46)	1.33
Beverage and cigarette	3.59	(0.37)	1.73
Garment, Footwear, hat	6.37	(0.20)	0.81
Housing and construction materials	15.73	0.24	0.82
Household appliances and goods	7.31	(0.05)	0.47
Medicine and health care	5.04	0.02	0.21
Traffic	9.37	2.29	0.48
Postal services & Telecommunication	2.89	(0.13)	(0.57)
Education	5.99	0.00	4.44
Culture, entertainment and tourism	4.29	(0.03)	(0.71)
Other goods and services	3.3	(0.28)	1.55
Consumer Price Index		(0.27)	1.16

Source: GSO, KIS

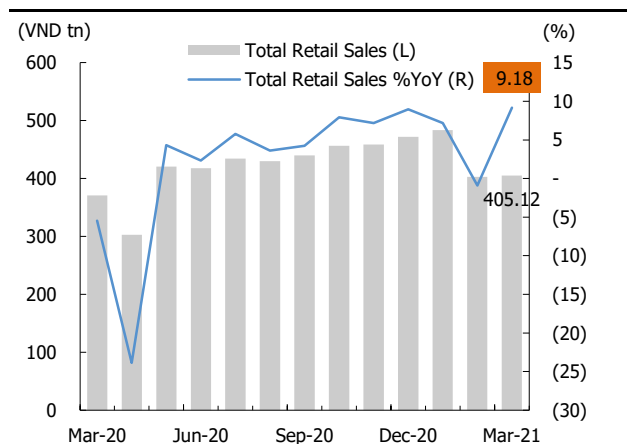
IV. Retail sales rebounds

The retail sector lifted up the total retail sales

March witnessed a rebound in retail sales drove by the improvements in the retail sector and accommodation and catering (A&C). According to GSO's estimates, the retail sales in March 2021 made a rebound as its growth rate posted 9.18%YoY, much better compared to the reduction at 0.91% YoY in previous month. The acceleration of the retail sector was the main reason for the move of the total retail sales. The retailing activity rose by 8.53% YoY, nearly tripling the previous growth rate, to post VND322.79tn this month. Besides, after recording a reduction in February, the growth rate of A&C activities posted 13.56% YoY this month, indicating that its revenue exceeds the level in the same period in 2020.

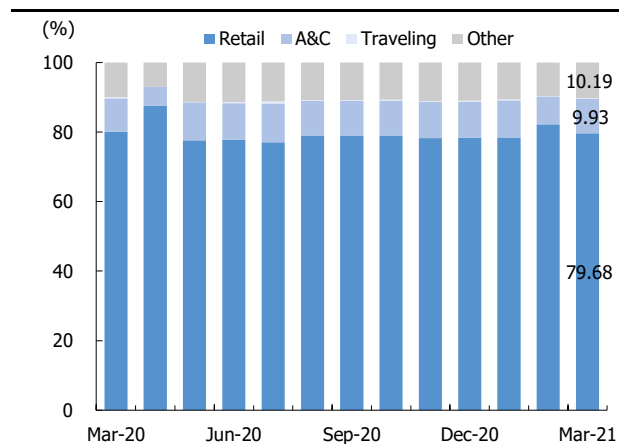
Regarding the structure, the retail value kept overwhelming with the largest share at 79.68% of the total, while A&C and traveling sectors jointly consisted of 10.13% of total revenue.

Figure 9. Monthly retail sales



Source: GSO, KIS

Figure 10. Components of retail Sales



Source: GSO, KIS

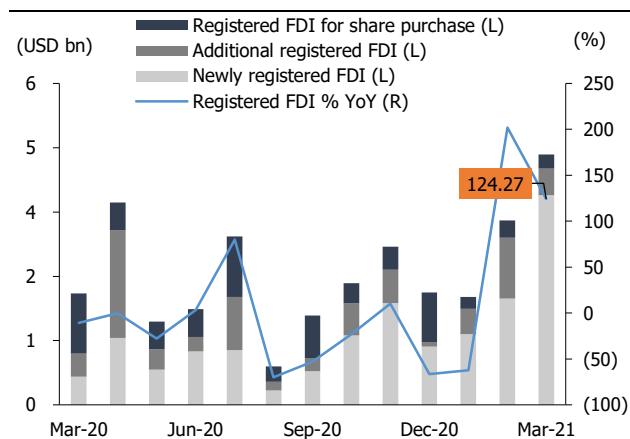
V. FDI accelerates to a new high since early 2020

Large power-plant projects push new FDI to a 14-month high

Data released recently showed that FDI saw the best quarter in 1Q21 since early 2020 when the global COVID-19 pandemic disrupted the global investment flows. Although the investment flows were inflated by a number of large projects focusing just on a few sectors, that inflated amount implies that global investors' views about investment opportunities in Vietnam remain promising for a longer horizon.

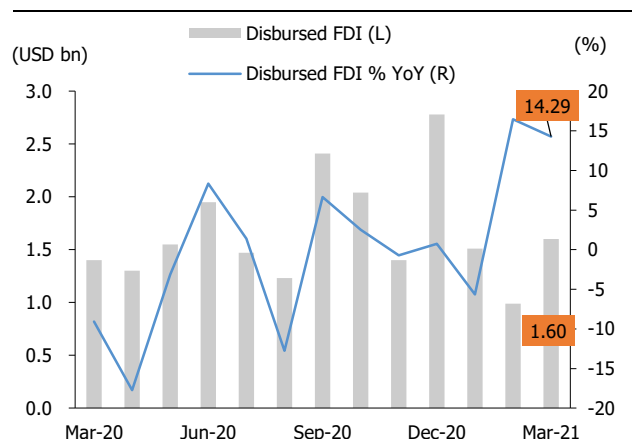
In more detail, newly registered FDI reached the highest level since January 2020 at USD3.91bn, while the additional capital registered for existing projects remained low at USD0.50bn. Meanwhile, foreign investment through stock purchase activity continued to slow down, recording the second slowest in 4 years, at USD0.26bn. In total, the newly registered capital recorded USD4.67bn in March, a 14-month high and increasing 124.27% YoY. Besides, the disbursement activity also rebounded to a 3-month high of USD1.6bn, up by 14.29% YoY.

Figure 11. Registered FDI



Source: MPI, KIS

Figure 12 Disbursed FDI



Source: MPI, KIS

VI. Uneven rebound in IIP ends a bad quarter

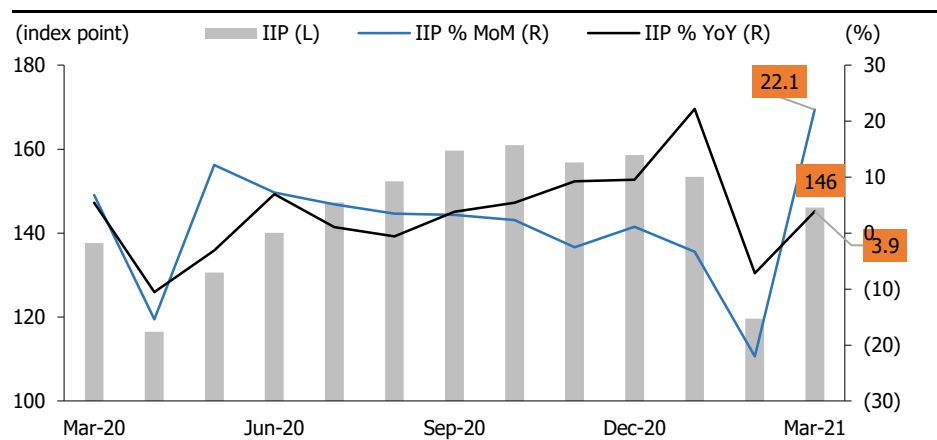
1Q21 IIP growth lose its fast-growing momentum

After an interruption in industrial production activity in February, a rebound in March was less than expected and significantly lower than in late-2020. Overall, the industrial growth in 1Q21 failed to maintain a fast-growing pace in 3Q20 and 4Q20 due to slowdown in some key industries like the electronics and basic materials industries.

According to the latest estimates from GSO, as of March-end, IIP bounced back by 22.1% MoM and 3.86% YoY, but the absolute production level posted the lowest level in 8 months if excluding Tet's holiday February.

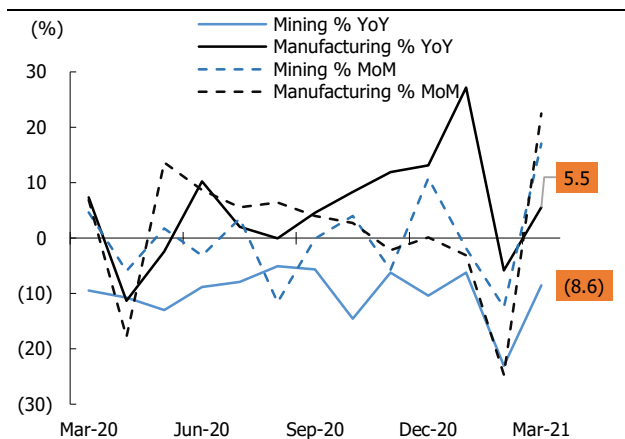
Breaking down by sub-sectors, the manufacturing recovery in March was somewhat less than the reduction pace in the prior month, up by 22.49% MoM and 5.54% YoY. A slowdown in the mining sector also remained a problem to industrial growth although the decreasing momentum reduced somewhat in March than previously. The mining-production level recovered by 17.06% MoM to narrow the YoY reduction to 8.56%. Besides, the electricity production & distribution and water supply sectors also climbed by 26.40% MoM (+ 3.38% YoY) and 3.77% MoM (+ 8.70% YoY), respectively.

Figure 13. The industrial production



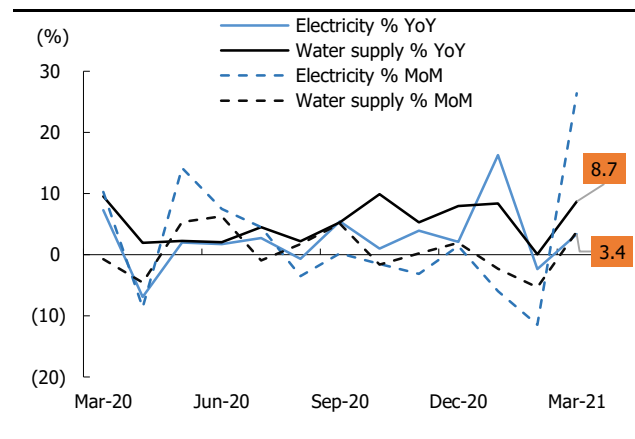
Source: GSO, KIS

Figure 14. Mining and manufacturing sub-sectors



Source: GSO, KIS

Figure 15. Electricity and water supply sub-sectors



Source: GSO, KIS

Macro scorecard

(USD bn, USD, %, % YoY)

	Oct-20	Nov-20	Dec-20	Jan-20	Feb-20	Mar-20	2Q20	3Q20	4Q20	1Q21	2017	2018	2019	2020
Real GDP growth			4.48			4.48	0.36	2.62	4.48	4.48	6.81	7.08	7.03	2.91
Registered FDI	2.27	2.95	2.10	2.02	3.44	4.67	7.12	5.54	7.32	10.13	35.88	35.47	38.02	28.53
GDP per capita											2,353	2,551	2,730	
Unemployment rate											2.21	2.21	2.25	2.48
Export	27.26	25.24	27.65	28.55	20.20	28.60	59.33	79.74	80.15	77.34	215.1	243.5	263.6	282.7
Import	24.27	24.69	27.91	26.46	20.66	28.20	57.41	69.02	76.86	75.32	213.2	236.7	254.4	263.0
Export growth	12.21	10.73	22.75	55.13	(3.77)	18.53	(6.81)	10.61	15.14	21.76	21.82	13.19	8.16	7.02
Import growth	9.00	15.69	24.51	41.32	9.75	27.32	(9.46)	3.74	16.43	26.17	21.85	11.01	7.41	3.81
Inflation	2.47	1.48	0.19	(0.97)	0.70	1.16	3.57	3.81	3.24	0.30	3.53	3.54	2.79	3.24
USD/VND	23,181	23,141	23,126	23,049	23,018	23,076	23,206	23,184	23,126	23,076	22,698	23,175	23,173	23,126
Credit growth	6.15	8.46	10.14				3.26	6.10	10.14		18.24	13.89	13.70	10.14
10Y gov't bond	2.21	2.26	2.01	2.03	2.13	2.37	3.07	2.65	2.01	2.01	5.14	5.07	3.37	2.01

Source: GSO, Bloomberg, FIA, IMF

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