

# Economic Flash

## Widespread outbreaks limit economic recovery

### COVID-19 shock slows economic recovery

GSO's figure shows that the domestic output, in the real term, continued expanding further in 2Q21 as the GDP growth rate in this quarter was higher than that in 1Q21. However, the economic recovery is less optimistic than previous estimates, suggesting that the domestic production suffered an unexpected COVID-19 impact when the infection became more complicated.

### Traffic and HCM extend CPI rebound

According to GSO, the traffic index and housing and construction materials (HCM) index continued pushing up the consumer price index (CPI) slightly this month. More specifically, CPI in June rose by 0.19% MoM, 3bps-higher than in May. The upward momentum of CPI was mainly driven by traffic and HCM, whose components were affected by global crude oil and base material markets.

### FDI goes into distress under uncertain conditions

The latest update for FDI in 2Q21 raised concerns about its weakness in a short-term horizon as foreign investors tend to put investment plans on hold under uncertain and unfavorable investment conditions. As a consequence, 2Q21's FDI registered capital dropped by 27.8% YoY or 49.25% QoQ, posting USD5.14bn.

### IIP overcomes the pandemic's headwinds

Although being concerned about being severely hit by the current outbreak, the industrial sector continued to keep its growth in June, albeit slightly. Most noticeably, the underlying drivers for the industrial growth were from water supply and generation & distribution of electricity sectors. At end-June, the IIP expanded slightly by 0.53% MoM, but it rose up to 6.73% YoY thanks to a low-base effect from the same period last year.

### 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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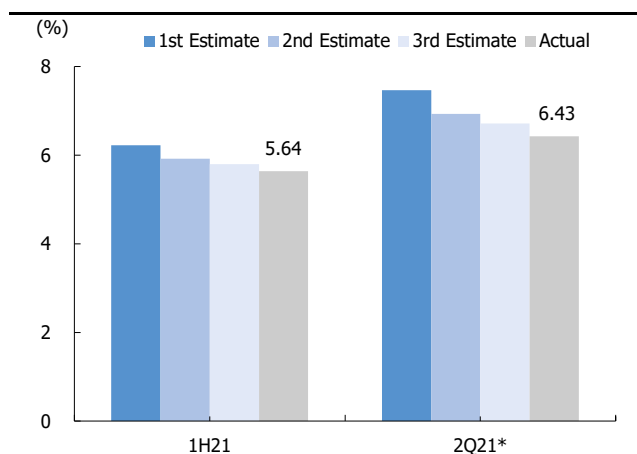
# I. COVID-19 shock slows economic recovery

## 2Q21 GDP growth underperforms under the spreading infection

GSO's figure shows that the domestic output, in the real term, continued expanding further in the second quarter as the GDP growth rate in this quarter was higher than that in 1Q21. However, the economic recovery is less optimistic than previous estimates, suggesting that the domestic production suffered an unexpected COVID-19 impact when the infection became more complicated.

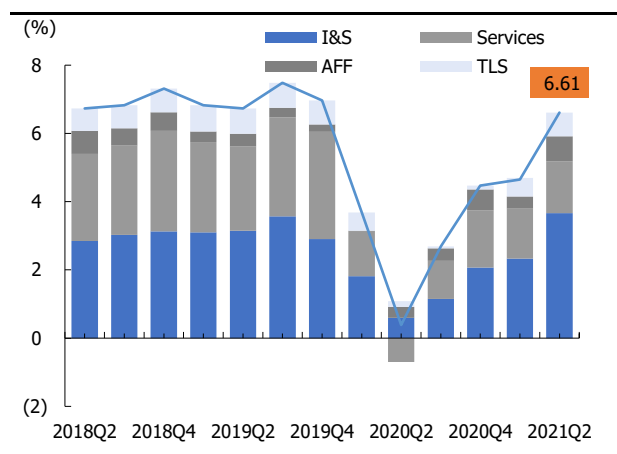
According to GSO's release, GDP growth in 2Q21 was 6.61% YoY, being equivalent to 5.64% YoY for the first half of 2021. This rate implies that the expansion of the domestic output disappointed market participants although the government recently adjusted down its initiation from 6.22% YoY at in Director 01 to 5.92% YoY after updating negative COVID19 impact on the domestic production and the GSO in the late of May continued reducing its forecast to the economic prospect in the first half to 5.8% YoY.

**Figure 1. Estimated GDP growths by the government**



Source: KIS, GSO  
Notes: \* 2Q21 estimates are calculated from 1Q21 and 1H21 estimates.

**Figure 2. GDP industry components**

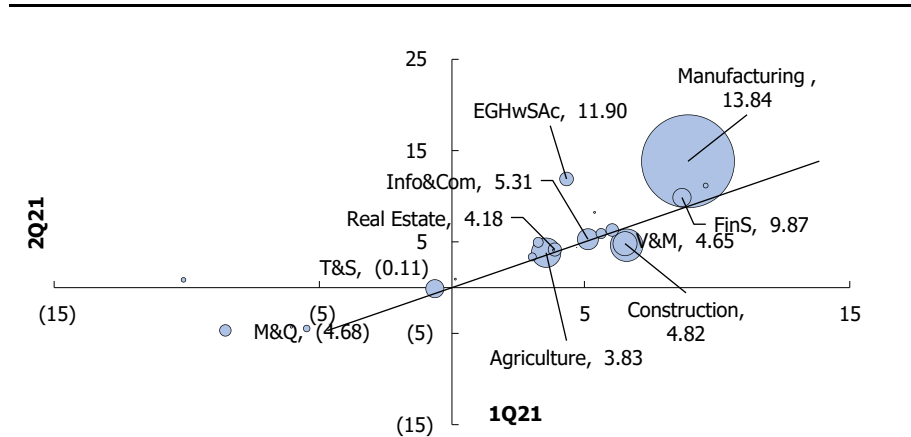


Source: KIS, GSO

Regarding sectoral contributions, industry and constructions (I&S) was the leading sector lifting the economic growth this quarter by increasing 10.28% YoY and contributing 3.67% to the overall growth. Services and agriculture, forestry, and fishery (AFF) recorded a modest acceleration, reflecting the glooming picture in domestic demand under the COVID-19 resurgence. The services and AFF grew by 4.29% YoY and 4.11% YoY this quarter, 60bps- and 68bps- higher than previous rates in 1Q21.

In sub-sector structure, manufacturing was the most prominent this quarter as its output record an impressive acceleration by growing by a double-digit rate of 13.84% YoY. Besides, production and supply of electricity, gas, hot water, steam and air-conditioning (EGHwSAC) and health care & social relief (HC&SR) grew remarkably by 11.90% YoY and 11.18%, contributing significantly to the overall acceleration this quarter.

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



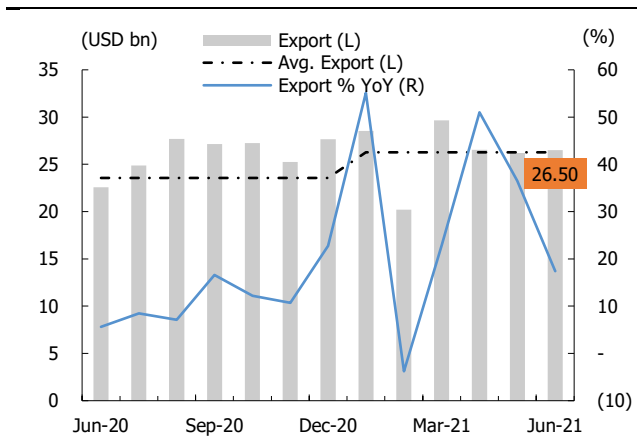
Source: KIS, GSO

## II. Trade turnover remains high

### Trade recovery slows down

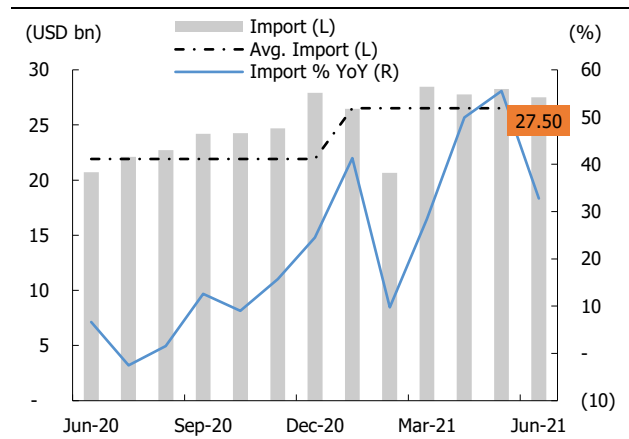
June witnessed that the trade value kept staying at a high value relative to the low base in the same period last year. However, the recovery made a slowdown this month. In detail, export and import values posted USD26.50bn and USD27.50bn, growing by 17.28% YoY and 33.48% YoY in this period, respectively. A high turnover of goods and services internationally traded outside this period confirms the trade activity was still on the recovery path as the demand from our major trading partners, including the U.S., EU, South Korea, Japan, and China, generally keep higher than 2020. In the first half of 2021, export and import values impressively grew by 28.40% YoY and 36.10% YoY, posting USD157.63bn and USD159.10bn, respectively. Besides, the trade balance recorded a deficit of USD1.00bn this month, marking the 3-month streak of the low export turnover relative to import turnover.

**Figure 4. Vietnam monthly export**



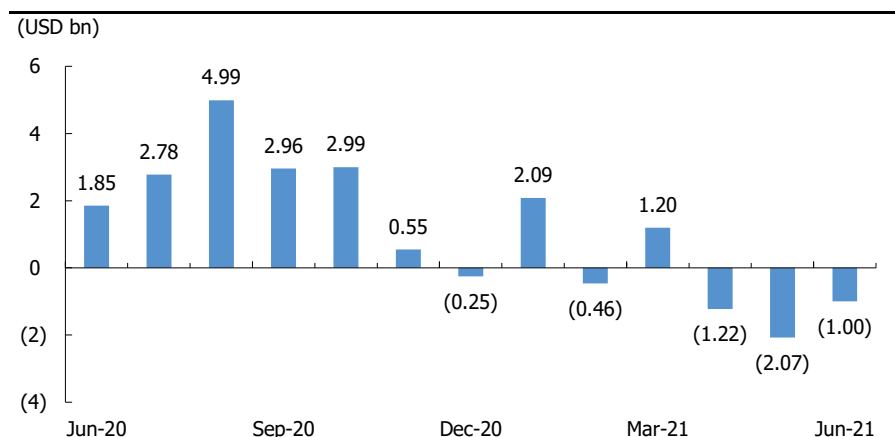
Source: KIS, GSO

**Figure 5. Vietnam monthly import**



Source: KIS, GSO

**Figure 6. Vietnam monthly trade balance**

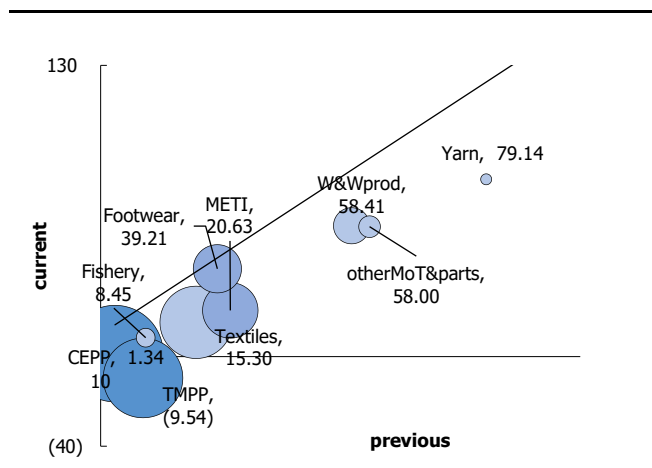


Source: KIS, GSO

Regarding the export structure, the majority recorded lower year-over-year growth rates than those in the previous month. Specifically, computers, electrical products and parts (CEPP), and machine, equipment, tools and instruments (METI) were prominent among laggards as their growth rates posted 1.34% YoY and 20.63% YoY. Similarly, year-over-year growth rates of textiles and wood and wooden products (W&Wprod) also were lower than May. Textiles and W&Wprod export values posted USD3.00bn and USD1.50bn, increasing by 15.30% YoY and 58.41% YoY, respectively. Telephones, mobile phones and parts (TMPP) even recorded a contraction this month as its export value were USD3.30bn, decreasing by 9.54% YoY.

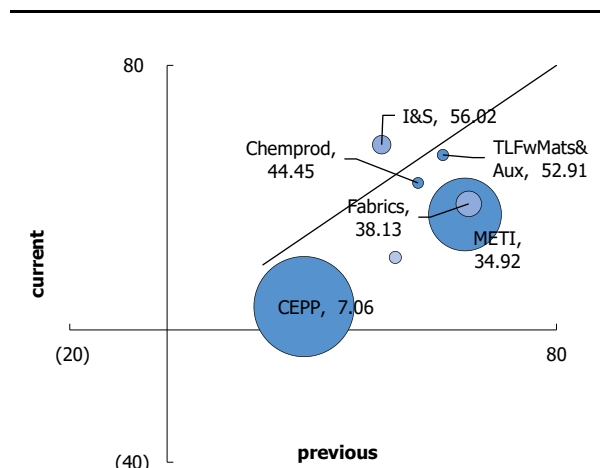
In a similar direction to export activities, many items in the import structure show lower growth rates in this period than in May except for iron and steel (I&S). Specifically, import values of CEPP and METI were USD5.50bn and USD4.00bn, growing by 7.06% YoY and 34.92% YoY. Their growth rates this month roughly account for half of those in the previous month. On the opposite direction, I&S import value rose by 56.02% YoY, 11.93%- higher than in the previous month, to post USD1.02bn.

**Figure 7. Top 10 export item: growth rates (% YoY)**



Source: KIS, GSO

**Figure 8. Top 10 import item: growth rates (% YoY)**



Source: KIS, GSO

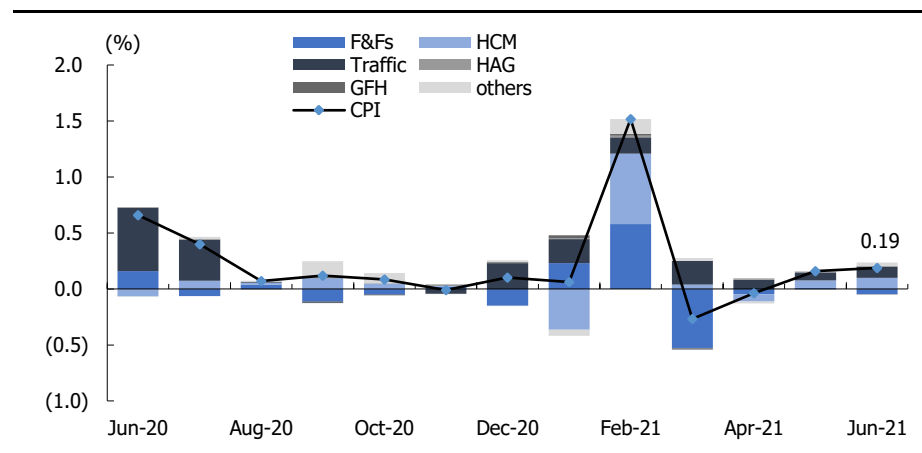
TMPP: telephones, mobile phones and parts, CEPP: computers, electrical products and parts, METI: machine, equipment, tools and instruments, otherMoT&parts: other means of transportation parts and accessories thereof, W&Wprod: wood and wooden products, F&V: fruits and vegetables, I&S: iron and steel,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

### III. Traffic and HCM extend CPI rebound

**Traffic and HCM push CPI up.**

According to GSO, the traffic index and housing and construction materials (HCM) index continued pushing up the consumer price index (CPI) slightly this month. More specifically, CPI in June rose by 0.19% MoM, 3bps-higher than in May. The upward momentum of CPI was mainly driven by traffic and HCM, whose components were affected by global crude oil and base material markets.

**Figure 9. CPI Changes**



Source: GSO, KIS

Among ingredients of traffic index, MoIT this month continued adjusting the gasoline price up along with the uptrend of global crude oil, causing the traffic index to rise by 1.07% MoM. Regarding HCM structure, construction materials generally climb up further, driving the HCM to increase by 0.63% MoM this month. On contrary, the food and foodstuff (F&Fs) index declined by 0.13% MoM due to the spreading infection.

Considering yearly change, the CPI slowed down as increasing just by 2.41% YoY, 49bps-lower than that in the previous month. Hence, the 12-month rolling inflation rate posted 1.88%, 212bps-lower than the government's 2021 target rate of 4%.

### IV. COVID-19 resurgence lowers retail sales

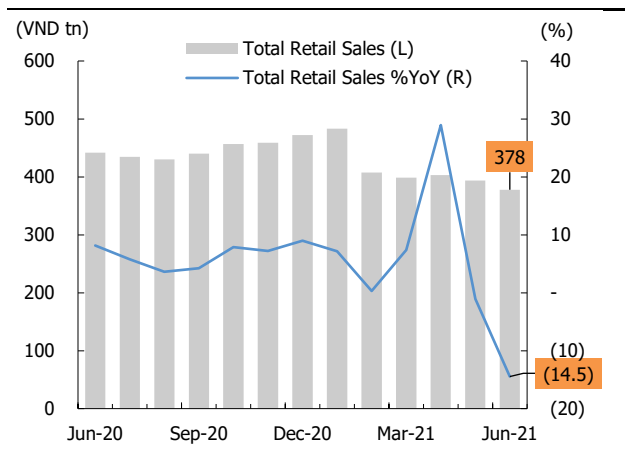
**The retail sales shrink under the stricter restrictions**

In June, the retail sales witnessed a reduction compared to the same period last year as government tightened restrictions to combat the COVID19 resurgence. According to GSO's estimates, the retail sales in June 2021 made a reduction as its value posted VND377.77tn, decreasing by 14.47% YoY. This reduction was mainly attributed to the increasing restrictions to combat the new virus resurgence in the north area, marking the 2-month streak decrease in total turnover of the retailing business.

The accommodation and catering (A&C) and traveling significantly dropped, mainly driving the total retail sales to decline this month. More specifically, revenues of the A&C and traveling businesses reduced by 41.64% YoY and 91.93% to post VND27.14tn and VND0.16tn this month, respectively. Furthermore, the retail sector also recorded a significant reduction of 9.07% YoY, posting VND315.14tn.

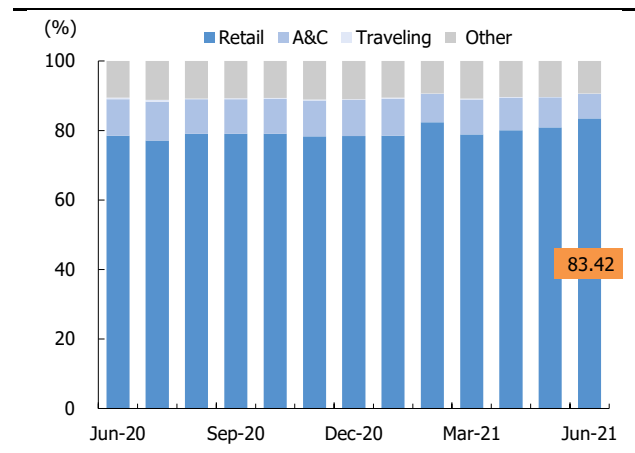
Regarding the structure, the retail value kept overwhelming, with the largest share at 83.42% of the total, while A&C and traveling sectors jointly consisted of 16.53% of total revenue.

**Figure 10. Monthly retail sales**



Source: GSO, KIS

**Figure 11. Components of retail Sales**



Source: GSO, KIS

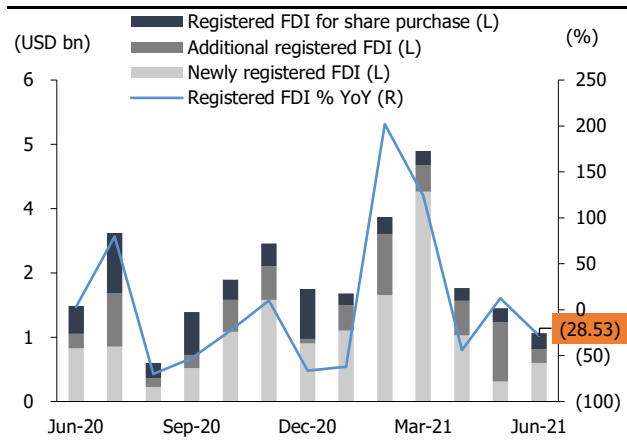
## V. FDI goes into distress under uncertain conditions

### **FDI fell to the lowest in nearly 3 years**

The latest update for FDI in the second quarter of 2021 raised concerns about FDI weakness in a short-term horizon as foreign investors tend to put investment plans on hold under uncertain and unfavorable investment conditions. The root causes are from strict international flight restrictions, which are recently reinforced at a greater level under the complicated and widespread outbreak. Not only do they face many difficulties in entering Vietnam, but the foreign investors may also re-consider their investment plans as Vietnam's economy is to be vulnerable under the COVID-19 new delta variant's attack.

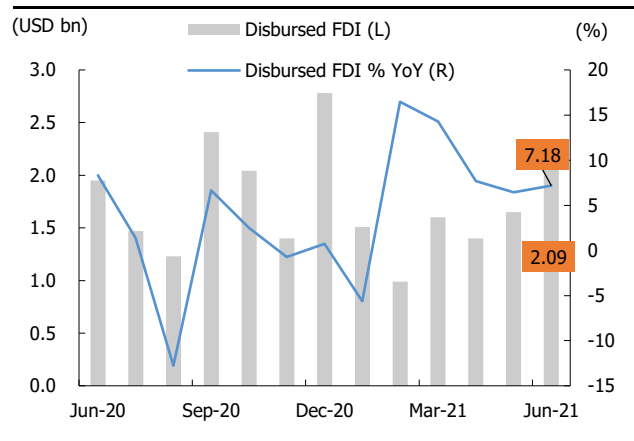
Going into details, FDI registration stayed significantly quiet in 2Q21 with the registered amount falling to the second-lowest level in nearly three years, at just USD2.33bn and down nearly 20% YoY. Even worse, the foreign's amount in stock investment fell to a record low of USD0.80bn since its data collection began in late-2016, which is just more than a half of 2Q20' level. On the other side, additionally registered capital for existing projects remained robust with USD2.01bn in 2Q21, still 24.25% lower than its 4-year high in 2Q20. As a result, 2Q21's total foreign-registered capital plunged 27.8% relative to 2Q20 or 49.25% from the first quarter, posting USD5.14bn. By contrast, disbursed FDI reached the second-highest since 2020, at USD5.14bn in 2Q21.

**Figure 12. Registered FDI**



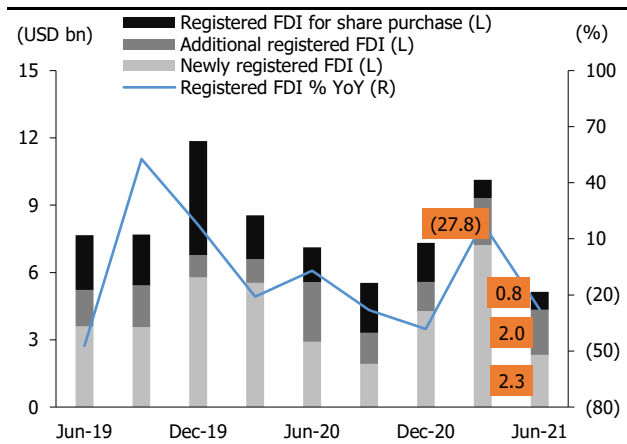
Source: MPI, KIS

**Figure 13 Disbursed FDI**



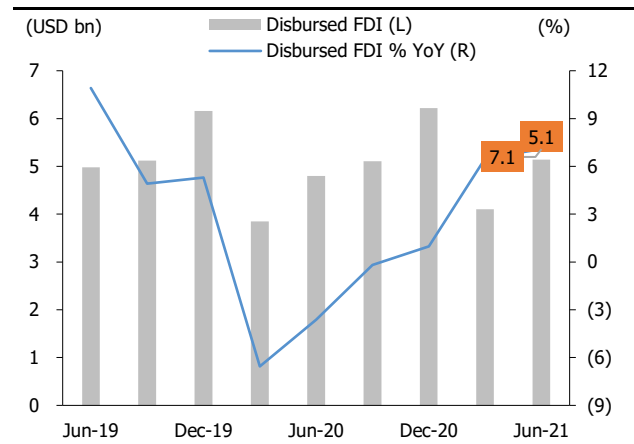
Source: MPI, KIS

**Figure 14. Registered FDI**



Source: MPI, KIS

**Figure 15 Disbursed FDI**



Source: MPI, KIS

## VI. IIP overcomes the pandemic's headwinds

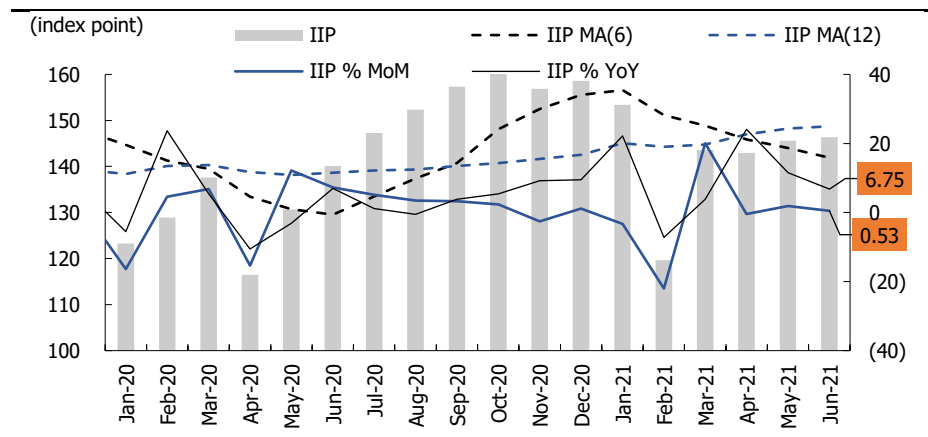
### ***IIP recovery continued for a second month***

Although being concerned about facing severely hit by the current outbreak, the industrial sector continued to keep its growth in June, albeit slightly. Most noticeably, the underlying drivers for the industrial growth in this time were from two minor sub-sectors water supply and generation & distribution of electricity. Furthermore, robust growths in several industries in the manufacturing sector were able to offset a temporary disruption in the electronics industry, which is crowded in Bac Ninh and Bac Giang industrial parks. At end-June, the IIP expanded slightly by 0.53% MoM, but it rose up to 6.73% YoY thanks to a low-base effect from the same period last year.

The largest-weighted manufacturing sector overcame many difficulties in June with a slight growth of 0.26% MoM (8.06% YoY). The two primary drivers that we mentioned above, the electricity generation & distribution and water supply, saw impressive growths in the month, at 3.59% MoM (8.23% YoY) and 7.88% MoM (5.97% YoY), in which the former reached the highest production for a

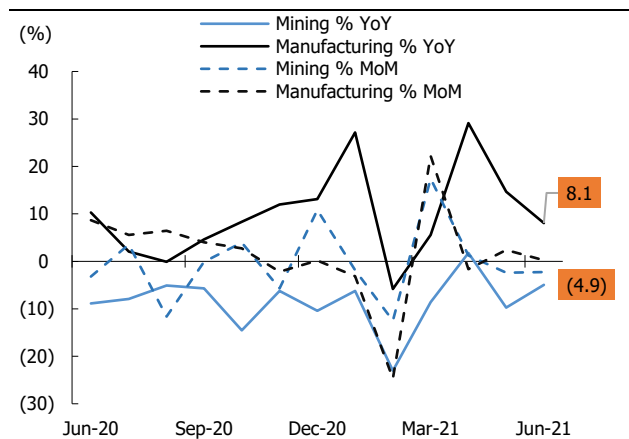
year. On the other side, with a significant slowdown in crude oil & natural gas and metal mining activities, the mining production was hitting a record low since this index was established (excluding Tet's month), down 2.27% MoM (-4.94% YoY) for a second month.

**Figure 16. The industrial production**



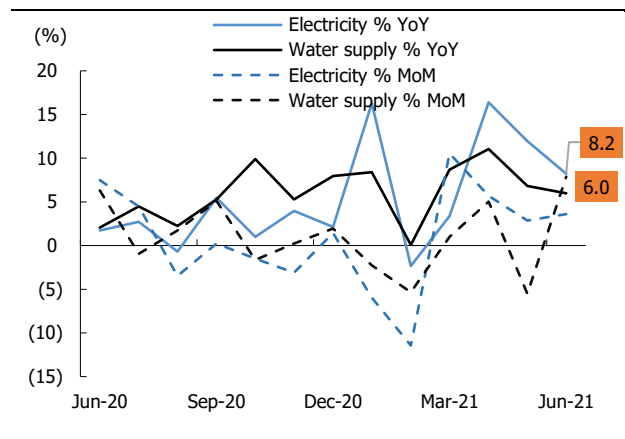
Source: GSO, KIS

**Figure 17. Mining and manufacturing sub-sectors**



Source: GSO, KIS

**Figure 18. Electricity and water supply sub-sectors**



Source: GSO, KIS



## Macro scorecard

(USD bn, USD, %, % YoY)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	3Q20	4Q20	1Q21	2Q21	2017	2018	2019	2020
Real GDP growth			4.48				2.62	4.48	4.65	6.61	6.81	7.08	7.03	2.91
Registered FDI	2.02	3.44	4.67	2.12	1.74	1.28	5.54	7.32	10.13	5.14	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	28.55	20.20	29.65	26.55	26.00	26.50	79.74	80.15	77.34	79.23	215.1	243.5	263.6	282.7
Import	26.46	20.66	28.46	27.78	28.00	27.50	69.02	76.86	75.32	83.50	213.2	236.7	254.4	263.0
Export growth	55.13	(3.77)	22.89	51.00	35.51	17.28	10.61	15.14	21.76	33.50	21.82	13.19	8.16	7.02
Import growth	41.32	9.75	28.48	49.95	54.05	33.49	3.74	16.43	26.17	45.68	21.85	11.01	7.41	3.81
Inflation	(0.97)	0.70	1.16	1.16	2.90	2.41	3.81	3.24	0.30	1.23	3.53	3.54	2.79	3.24
USD/VND	23,049	23,018	23,076	23,053	23,048	23,020	23,184	23,126	23,076	23,020	22,698	23,175	23,173	23,126
Credit growth							6.10	10.14			18.24	13.89	13.70	10.14
10Y gov't bond	2.03	2.13	2.40	2.36	2.27	2.04	2.65	2.01	2.40	2.04	5.14	5.07	3.37	2.01

Source: GSO, Bloomberg, FIA, IMF

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