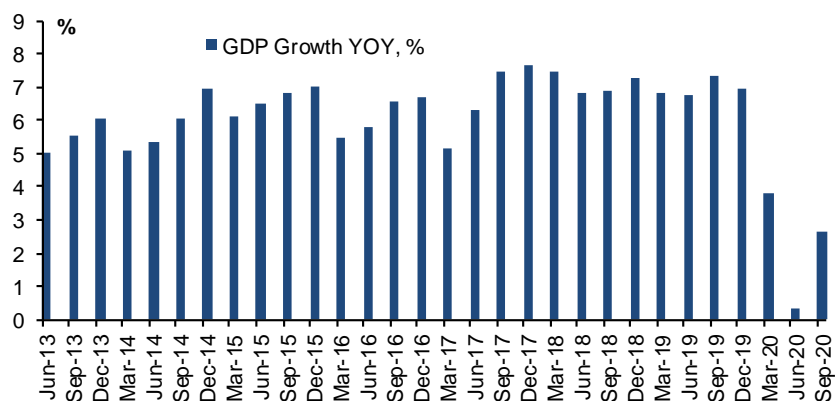


Global Markets Research
Economics - Vietnam

Vietnam economy rebounded in 3Q

Vietnam GDP growth rebounded sharply to 2.6% in the third quarter, after the meagre 0.4% growth in 2Q, as the relative success in containing the Covid-19 virus had helped the economy move along despite the absence of foreign visitors. September's monthly indicators were generally positive, adding to signs that the recovery is still underway; manufacturing and trade sectors are the bright spots while retail sales remained subdued. The government expects growth to range at 2.0-2.5% in 2020 and to normalize to grow 6.5% in 2021, a huge display of confidence. Given that credit growth remained rather weak and inflation stable, there is still room for the SBV to bring its benchmark rate (now at 4.5%) down further.



Source: Bloomberg

GDP growth rebounded in 3Q

Vietnam GDP growth sprang back to 2.6% YOY in the third quarter of 2020, from 0.4% YOY in 2Q, confirming views that the economy has recovered swiftly from the temporary pandemic shock. The latest print roughly matched analysts' expectation for a 2.7% growth and made Vietnam an outlier in the currently pessimistic economic atmosphere where countries around the world are still struggling to recover from their worst downturns on record.

YTD GDP growth stood at 2.1%, still well below growth in the corresponding period in 2019 (+7.0%), but very much within the government full year forecast of 2.0-2.5%. Nonetheless, it is an encouraging sign that GDP output has recovered above the same period last year. Sector-wise, output in the primary industry comprising of agriculture, forestry and fishery rose 1.8% YTD YOY (9M19: +2.0%). Industry/construction rose 3.1% (9M19: +9.4%). The services sector grew 1.4% (9M19: +6.9%). Nominal output has recovered.

International trade recovered substantially.

Looking at the latest trade statistic, exports surged by 18.0% YOY in September (Aug: +2.5%), marking its third consecutive month of advancement and its largest increase in 2.5 years. This is well above early expectation at 6.5%. Imports also unexpectedly jumped by 11.6% YOY (Aug: +2.8%).

Manufacturing growth continued to underpin overall industrial production

Industrial production managed to score a 3.8% YOY gain in September (Aug: -0.6%) following the minor decline earlier. This reflects growth in manufacturing (+4.6%), electricity (+5.5%) and water supply (+5.3%). Mining and quarrying continued to register contraction. MOM, industrial production growth was slower at 2.3% (Aug: +3.5%), nonetheless marks its fifth back-to-back monthly increase, which is supported by

continuous rise in manufacturing output.

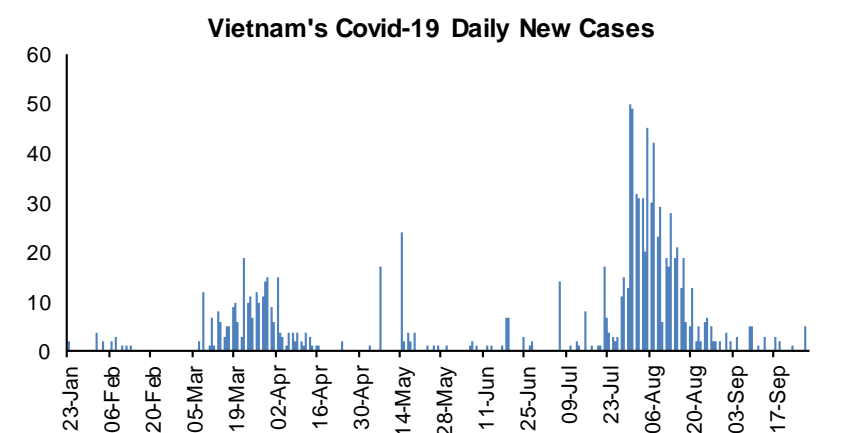
Retail sales growth back to positive

Retail sales rose 0.7% YOY for the first nine months of 2020, its first positive reading six months; although still far below its previous year's circa 11% growth (given the absence of foreign visitors), the latest print is an optimistic indication that demand is slowly recovering.

Price pressure retreated

CPI pulled back to 2.98% YOY in September (Aug: +3.2%) thanks to smaller gain in food prices. Transport cost also recorded smaller decline as global crude oil prices stabilized. Another more obvious change was in prices of household appliances which registered smaller gain as well. Stripping away the volatile items, core inflation retreated to 1.97% YOY, from +2.2% YOY in August.

After a brief spike in August, infections are now contained

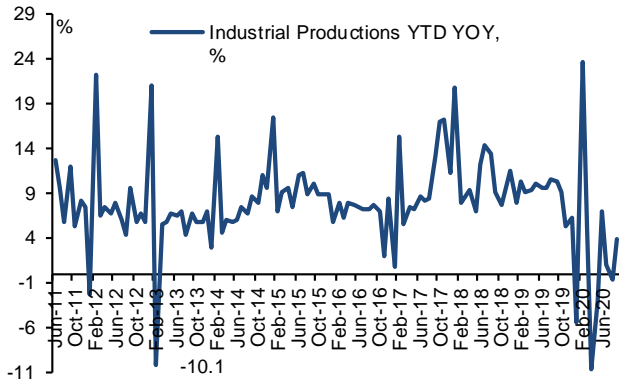


Source: Bloomberg

Government expects growth to normalize in 2021

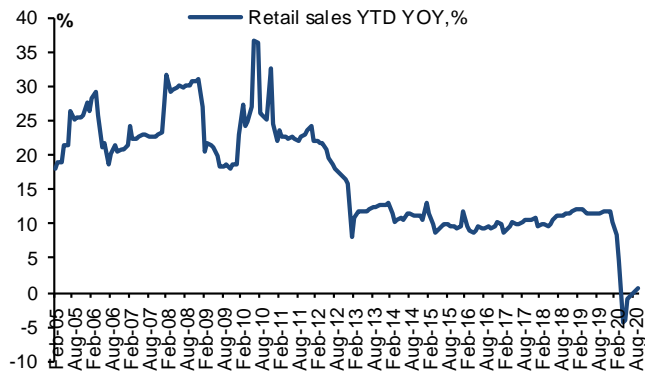
The government's latest growth target stands at a 2.0-2.5% for 2020 and 6.5% for 2021, indicating that the government expects growth to normalize as fast as next year given that annual GDP growth had been ranging at 5-7% in the past. The optimism stemmed from the country's relative success in containing the virus; a new outbreak in August had been quickly brought under controlled. We expect domestic demand to continue support growth heading into the fourth quarter but is wary of the >6% growth projected given that international tourism remains stifled. The manufacturing sector is likely to remain the bright spot but challenges include competition from China and overall weak global demand. Credit growth also remained comparatively slower in the first seven month of 2020 at 4.1% YOY, versus 7.5% last year. The SBV has cut its benchmark refinancing rate to 4.5% and we reckon there is still room for the central bank for further downward adjustment this year to spur recovery.

Figure 2: Industrial Production



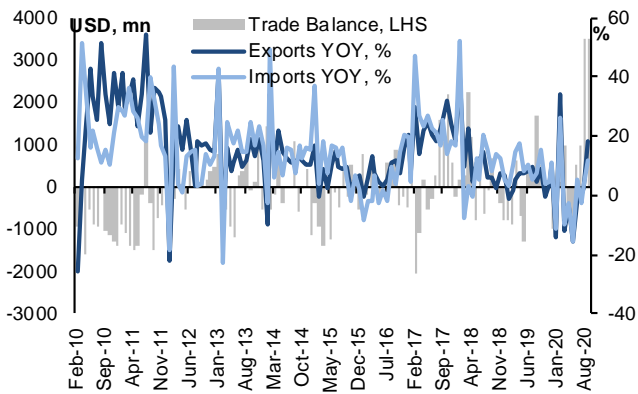
Source: Bloomberg, CEIC

Figure 5: Retail Sales



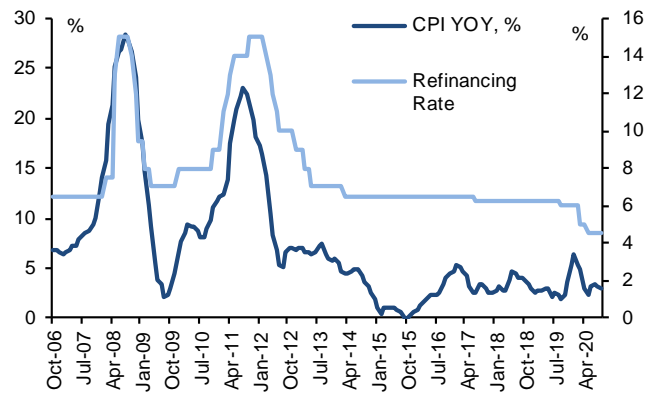
Source: Bloomberg, CEIC

Figure 3: International Trade



Source: Bloomberg, CEIC

Figure 6: CPI and SBV Refinancing Rate



Source: Bloomberg, CEIC

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