

**Global Markets Research**
**Research Alert**

# Vietnam: Strong comeback in 2021

- **Economy stays resilient despite global pandemic**
- **Global vaccine rollout to reinforce demand for Vietnamese goods**
- **SBV likely to keep benchmark rate steady in anticipation of credit growth recovery**

**Background**

Vietnam's 4Q real GDP growth came in at 4.5% y/y, advancing from the 2.6% growth prior. This translates to a full-year GDP growth of 2.9% in 2020, making it among the rare economies to have staved off a contraction in a pandemic year. Growth was broad-based across all sectors. In 2020, the agricultural sector expanded by 2.7%, outperforming 2019. Industrial and construction sector recorded a smaller 4.0% growth (2019: +8.9%) while services printed more moderate growth of 2.3% (2019: +7.3%).

Throughout 2020, GDP did not once observe a contraction; the lowest point was in the second quarter when a small 0.4% expansion was reported. This was mainly due to its relative success in managing the Covid-19 pandemic. The government acted swiftly to close the borders during the onset of the outbreak. Subsequent waves were also subdued within a relatively short period of time. Daily new cases have never exceeded 110.

**Monthly indicators point to solid growth ahead**

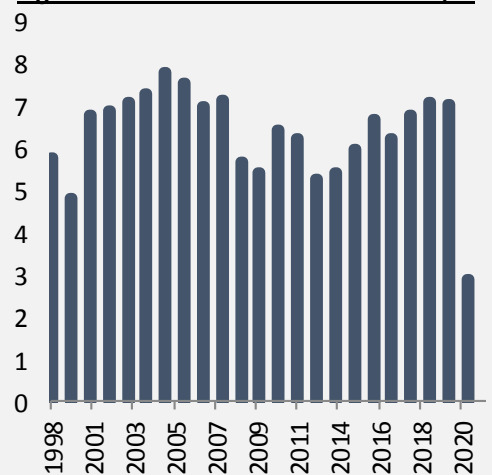
Vietnam's industrial production fell 7.2% y/y in February, retreating from the strong 22.2% growth in January. This is likely to be a temporary pull-back after five consecutive monthly gains and also because of the halt in activity for the Lunar New Year celebration.

On the domestic front, retail sales rose 5.5% y/y for the period of January-February, smaller than the 8.3% growth observed in the same period last year and markedly below the double-digit gain before the pandemic. (Note that the Statistics Office did not publish single-month growth.)

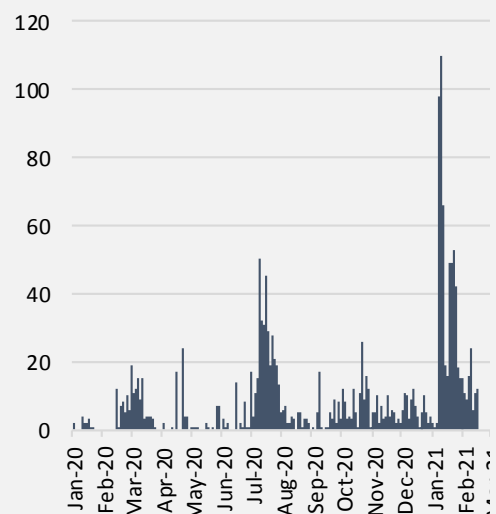
Consumer prices surged by 1.5% m/m in February (Jan: +0.1%) due to festivity-related factors. This is evident in the surge in food prices and to some extent the prices of housing and construction materials. Core CPI inflation was also higher at 0.5% m/m (Jan: +0.3%). Compared to the same month last year, CPI gained 0.7% y/y, recovering the nearly 1% decline in January. Core CPI picked up 0.8% y/y (Jan: +0.5%).

Exports fell 4.7% y/y in February after recording a whopping 50.5% increase in January during which exports were front-loaded ahead of the celebration. Imports meanwhile managed to still gain 10.5% y/y after the 41.0% growth prior, implying a strong domestic demand.

Looking ahead, economic growth is expected to extend to the remainder of 2021 in Vietnam, as the confidence for a broad-based

**Figure 1: Vietnam's Annual Real GDP, %**


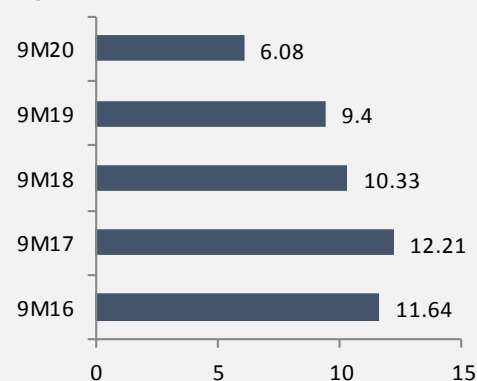
Source: Bloomberg

**Figure 2: Daily Covid-19 New Cases**


Source: Bloomberg

global recovery gathered steam in recent weeks. This is underpinned by the optimism surrounding roll out of vaccines across the globe, a positive sign that demand for Vietnamese goods will continue to pick up. Locally, the low number of Covid-19 cases is expected to keep the economy open, meaning that private consumption would be well supported. The proposal to open the borders for vaccinated tourists in 3Q also bodes well for the tourism sector. The economy is expected to expand 7.7% in 2021 according to Bloomberg consensus forecast, followed by another 6.8% growth in 2022. We expect the SBV to keep its refinancing rate at 4.0% after having reduced it in October last year, in anticipation of further recovery in credit growth.

**Figure 3: Vietnam's YTD Credit Growth, %**



Source: Bloomberg

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