

Macro Note

Vietnam: Economic Growth Recovers Further In 4Q, Fuels Optimism For 2021

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- Vietnam's economic growth in 4Q20 accelerated to 4.48%/y/y, from 2.69%/y/y in 3Q20 ahead of our expectation and consensus forecast of 4%. Vietnam's economic expansion eased to 2.91% in 2020, and better than our call of 2.7%, as one of the few economies globally that managed to secure positive growth during the pandemic year.
- For 2021, we maintain our forecast of Vietnam's economic growth at 7.1%, helped by low base in the pandemic-hit first half of last year, as well as favourable factors such as free trade agreements signed recently. Official forecast currently is set at 6% for 2021, and could potentially be raised to 6.5%.
- To ensure the pace of economic recovery is on track, we think there is still a risk for the SBV to cut its policy rates 50bps sometime in 1Q21. Another key event to watch ahead is the twice a decade leadership change that will take place later this month at the 13th National Congress of the Communist Party of Vietnam.

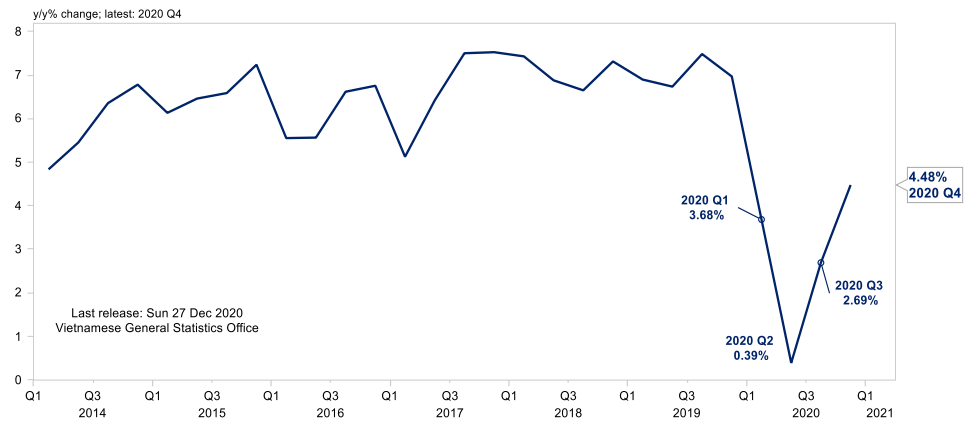
One of the few economies with positive growth in 2020

Data released by the General Statistics Office (GSO) on 27 December showed that Vietnam's economic growth in the final quarter of 2020 accelerated to 4.48%/y/y, from 2.69%/y/y in 3Q20 (revised marginally higher from 2.62%). The outcome came in ahead of our expectation and consensus forecast of 4%.

While the headline figure is the slowest rate for the fourth quarter since at least 2011 and activities had decelerated sharply especially in 2Q20 (0.39% y/y) due to the global COVID-19 pandemic, the successful and early containment of local infections allowed the country to maintain positive growth throughout 2020, albeit at a sharply slower pace.

Vietnam, GDP, Constant Prices (Quarterly)

Source: Macrobond, UOB Global Economics & Markets Research



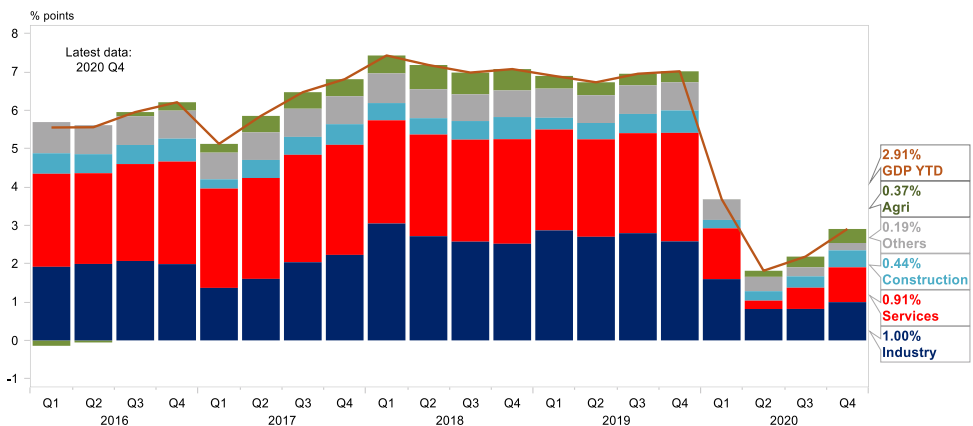
For the full year, Vietnam's economic growth eased to 2.91% in 2020, and better than our call of 2.7%. Vietnam is one of the few economies globally that managed to secure positive growth during the year, as the COVID-19 pandemic continued to rage around the world. Nevertheless, this is the slowest annual pace for Vietnam in more than 30 years, after registering above 7% expansion for two consecutive years. The government's full-year forecast for 2020 was 2-3%.

Contributions from across the economic sectors improved in 4Q20 as lives gradually returned to some normalcy, though it is still below pre-COVID days. Industrial production continued to be the main contributor to growth in 2020, as services sector was hit hard by the pandemic and the restrictive measures to control its spread, especially in 2Q20.

In 2020, industrial sector accounted for 1% point, or nearly one-third of full year growth, while services output came in slightly less at 0.91% point. This is a reversal from the pre-COVID days when services output generally provided most of the growth impetus.

Vietnam: GDP YTD Growth Contributions By Main Sectors (% Points)

Source: Macrobond, UOB Global Economics & Markets Research

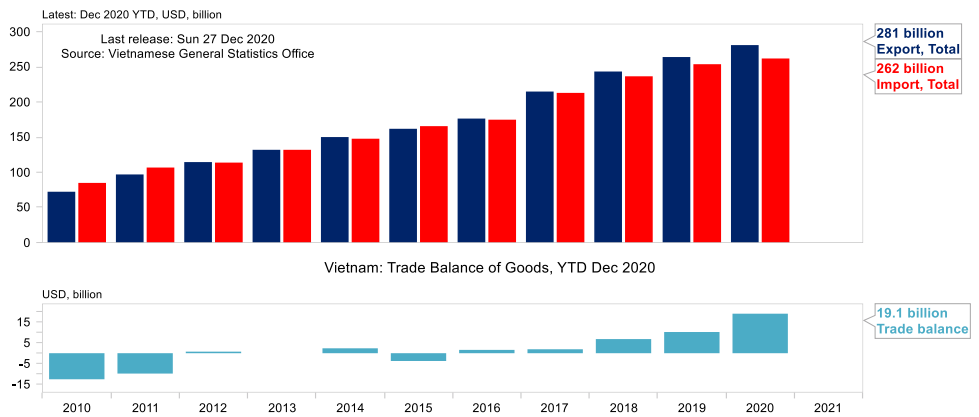


Trade and investment flows moved in right direction

Other data releases also point to gradual improvement of economic momentum. Exports rose 17.5%/y/y in December, while imports surged 23.3%, as external trade recovered strongly since hitting the trough in May. For the full year, Vietnam’s exports increased 6.4% (vs. 8.1% in 2019) and imports gained 3.2%, with trade surplus jumping to record high of USD19bn. For 2020, Vietnam’s top three largest exports products were phone-related products (USD50.9bn; -1%/y/y); computers and parts (USD44.7bn; +24.3%/y/y), and textile and garments (USD29.3bn; -10.8%/y/y).

Vietnam: Foreign Trade (Monthly, YTD), Dec 2020

Source: Macrobond, UOB Global Economics & Markets Research

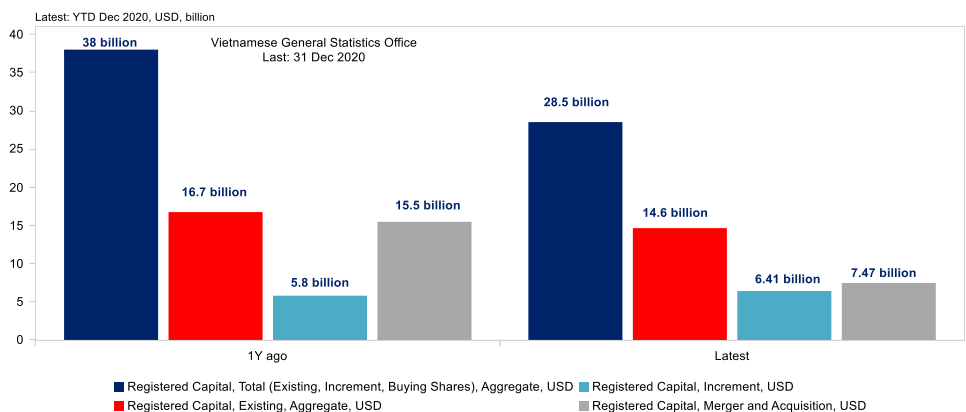


Consumer prices rose 0.19%/y/y in December, for a full year average inflation of 3.2% (core inflation: 2.3%) in 2020. The government continues to set an average inflation rate at 4% for 2021.

Although foreign direct investment (FDI)’s registered investments in Vietnam fell by 25% to USD28.5bn due to travel restrictions and dampened investor sentiment, foreign companies still pumped in USD6.4bn into existing FDI projects, or 10.6%/y/y increase, suggesting a positive outlook ahead.

Vietnam, Foreign Direct Investment, Registered Capital (YTD Aggregate)

Source: Macrobond, UOB Global Economics & Markets Research



Positive outlook hinges on global containment of pandemic

Successful and early containment of the COVID-19 pandemic locally has allowed business activities to gradually resume towards “normal” in Vietnam, and this is reflected in the sequential improvements in various data releases.

While the upward trend of economic activities is likely to continue in 2021, this outlook is highly dependent on the containment of the pandemic globally and the rolling out of vaccines, notwithstanding the fact that a number of countries/regions are facing even more severe waves of infections and, new and more infectious strains of the virus have emerged.

As pointed in our latest Quarterly report, our base case (60% probability) is for an effective rollout in 1H21 with social distancing measures gradually reduced from 2H21, cumulating in COVID-19 containment by 4Q21 (for details, please refer to: [Executive Summary, 1Q21](#)).

Vietnam itself has agreed to buy 30 million doses of the COVID-19 vaccine made by AstraZeneca, deputy health minister Truong Quoc Cuong said recently (4 Jan), adding that authorities are also seeking to purchase vaccines from other sources. This will further strengthen the country’s capability to control local infections, although it remains to be seen how fast the deployment could take place due to supply constraints, logistics challenges, and domestic health care infrastructure.

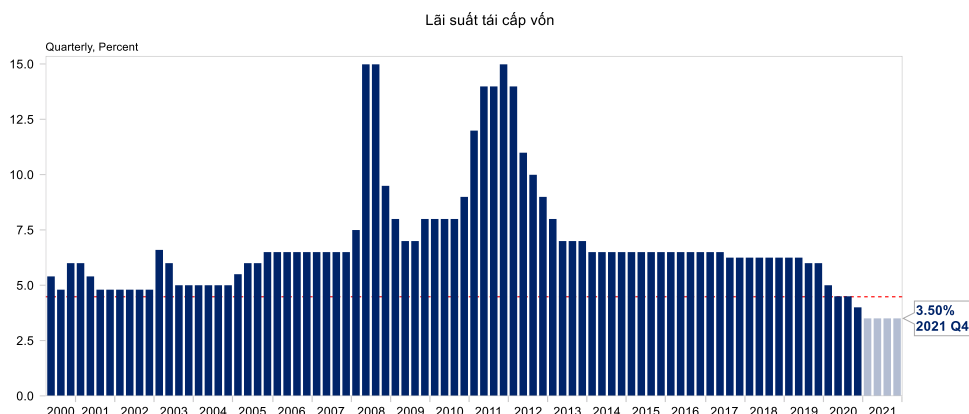
Other factors in Vietnam’s favour include the spate of free trade agreements that would help drive exports and investments further. These include the EU-Vietnam Free Trade Agreement (EVFTA, in effect since Aug 2020), the Regional Comprehensive Economic Partnership (RCEP) agreement and the newly concluded Vietnam-UK Free Trade Agreement (UKVFTA). Vietnam’s current efforts in digital transformation and promoting e-commerce, as well as the dynamic and abundant workforce are further positive drivers for the outlook.

For 2021, we maintain our forecast of Vietnam’s economic growth at 7.1%, with the low base in the pandemic-hit first half of 2020 providing a lift in 1H21. Official forecast currently is set at 6% for 2021, although Prime Minister Nguyen Xuan Phuc noted after the 4Q data releases that the target could potentially be raised to 6.5%. World Bank is projecting Vietnam’s growth of 6.8% in 2021. Under Vietnam’s latest five-year socio-economic development plan (2021-25), the target is for an average annual growth of 6.5%-7.0%.

As for monetary policy, our expectation for one final interest rate cut in 4Q20 from the State Bank of Vietnam (SBV) did not materialise. The SBV was likely to have been stopped in its track by the US Treasury’s designation of Vietnam as a currency manipulator in December (For more details, please refer to: [US Treasury Labels Switzerland And Vietnam As Currency Manipulators, 17 Dec 2020](#)). The SBV reiterated on 17 Dec that it does not use the exchange rate “to create an unfair competitive advantage in international trade”. To ensure that growth target could be met this year and economic recovery is kept on track, we think there is still a risk for SBV to cut its policy rates 50bps sometime in 1Q21, to bring the refinancing rate to new record low of 3.50% and rediscount rate to 2.0%.

Vietnam, Policy Rates, Refinancing Rate

Source: Macrobond, UOB Global Economics & Markets Research



Leadership change ahead

Another key event to watch is the twice a decade leadership change that will take place later this month. Vietnam has a “four pillar” leadership structure which comprises of general secretary, prime minister, president, and chair of the National Assembly (parliament). The leadership governs in consultation with a 17- to 19-member politburo.

The 13th National Congress of the Communist Party of Vietnam (CPV) is scheduled to take place 25 Jan 2021 through to 2 Feb 2021. It will decide on the new leadership for the next five years and set the course of key policies for the country. About 1,600 delegates from across Vietnam will vote to select about 200 members to the Central Committee, which in turn will pick the politburo, and from that group the party general secretary. The politburo will then nominate candidates for prime minister and the cabinet. These will go to a vote in the National Assembly mid-year. General secretary Nguyen Phu Trong also became president in 2018 following the death of President Tran Dai Quang.

The 2021 Congress is important against a backdrop of economic challenges from global pandemic and geopolitical landscape that is leaning towards protectionism and de-globalisation. These work against trade-dependent countries like Vietnam that thrive on open trade and global cooperation.

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