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Macro Note

Vietnam: A Soft Rebound In 3Q

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- Vietnam's 3Q20 real economic growth rebounded to 2.62%y/y, compared to the revised 0.39% in 2Q20, as business activities recovered, at least partially, from earlier part of the year.
- For the first 3 quarters of 2020, headline GDP rose 2.12%y/y YTD, with industrial sector contributing 1.12ppt, or more than half of the gain, while services sector rebuilt its momentum with a 0.55ppt contribution.
- While the worst of the impact from COVID-19 pandemic looks to be over, it is still a long way before Vietnam's economy could return to its full capacity. The rebound in both the manufacturing sector and domestic consumption remains weak so far and border closures have reduced tourist arrivals to a trickle.
- Nevertheless, we still expect the recovery to extend further in 4Q20 but the pace is likely to be restrained against a backdrop of ongoing global COVID-19 pandemic. We are keeping our forecast for 4Q20 GDP growth at 4.0%y/y, as well as full year projections of 2.8% in 2020 and 7.1% in 2021. Uncertainty and potential downside risks ahead will leave room for the central bank to take on one more rate cut in 4Q20.

Off from the trough with a weak 3Q20 rebound

After the slump caused by the global COVID-19 pandemic in the first half of 2020, Vietnam's economic growth picked up momentum in 3Q20 with a gain of 2.62%y/y, compared to the revised 0.39% growth in 2Q20.

However, underlining the challenges of the recovery momentum, the latest headline GDP growth came in below consensus median forecast of 2.7% and our call of 3.0%. This suggests that the recovery pace remains weak after the interruption from a temporary resurgence of COVID-19 cases in the city of Danang during late July. So far the authorities have regained control of the situation and businesses activities are back on track, but remain well below "normal".

For the first 3 quarters of 2020, headline GDP rose 2.12%y/y YTD, with industrial sector contributing 1.12ppt, or more than half of the gain, while services sector rebuilt its momentum with a 0.55ppt contribution.

As industrial sector (including construction) and services account for a large portion of Vietnam's economy (about 35% and 37% share of GDP, respectively), their performances will influence headline growth significantly. Data releases so far showed an anemic recovery for these indicators. Industrial output expanded 3.8%y/y in September, despite after a deep decline in April, and is far below the double-digit pace in the past several years. Retail sales just managed to turn in a positive reading 0.7%y/y YTD in September, after 5 consecutive month of declines.

One key driver for Vietnam's services sector is inbound tourism, which accounts for the largest share relative to its GDP among the ASEAN countries. Vietnam reported visitor arrivals of less than 14,000 in September compared to nearly 2 million in January 2020. While this is not surprising given the border closures around the world to contain the spread of COVID-19, the impact on services sector is clearly felt and such a dismal state could continue for some time.

Growth momentum to extend further in 4Q

While the worst of the impact from COVID-19 pandemic looks to be over like many other Asian economies, it is still a long way before Vietnam's economy could return to its full capacity, as shown in the data so far. In addition, the spread of the global COVID-19 pandemic is showing no signs of easing, which will further curb any acceleration in business activities.

Assuming there is no further massive outbreak domestically, we expect the recovery to extend further in 4Q20 but the pace is likely to be restrained against a backdrop of ongoing global COVID-19 pandemic. We are keeping our forecast for Vietnam's 4Q20 GDP growth at 4.0%y/y, as well as full year projections of 2.8% in 2020 and 7.1% in 2021.

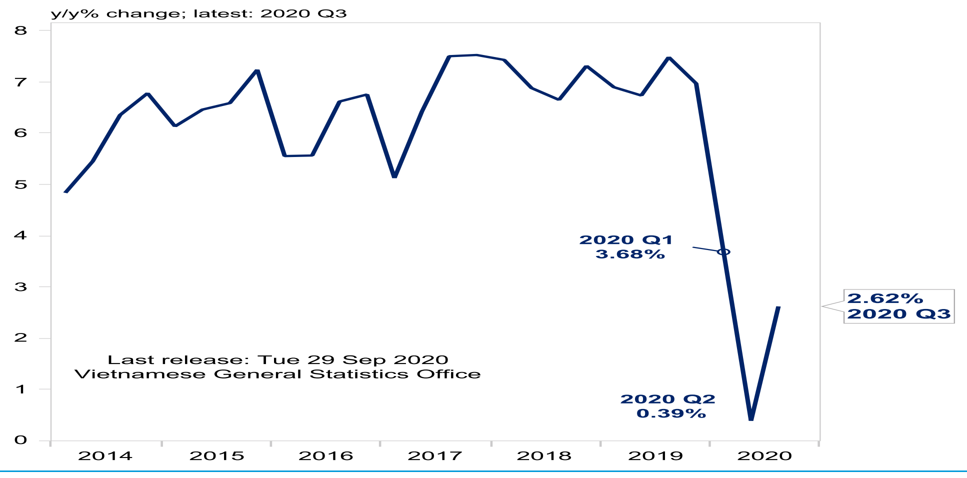
The Vietnamese government has recently reduced the country's growth target to 2% in normal conditions and 2.5% if "favorable factors" emerge, while for 2021 it expects economic growth of 6 – 6.5%.

Against this backdrop of uncertainty in the outlook and potential downside risks for the domestic economy, especially after the disruption from the second wave of infections earlier, we expect the central bank to take on one more rate cut in 4Q20.

While the State Bank of Vietnam (SBV) has not lowered the main policy rates since 12 May, the central bank has reduced other main interest rates since then. In early August, the SBV cut deposit interest rates on required reserves and excess reserves in Vietnamese dong (VND) by 0.5% points to 0.5%, as well as others such as open market operations (OMO) rates. These factors and a lack of inflationary pressure suggest that the SBV has room to ease the main policy rates, if necessary. We anticipate one more rate cut in 4Q20 by 50bps to 4.00%, and stay at that level through 2021.

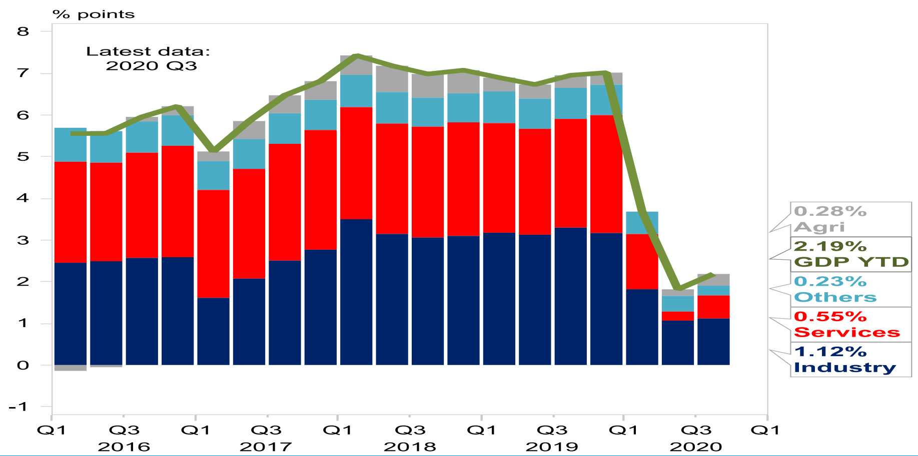
Vietnam: GDP, Total Constant Prices

Source: Macrobond, UOB Global Economics & Markets Research



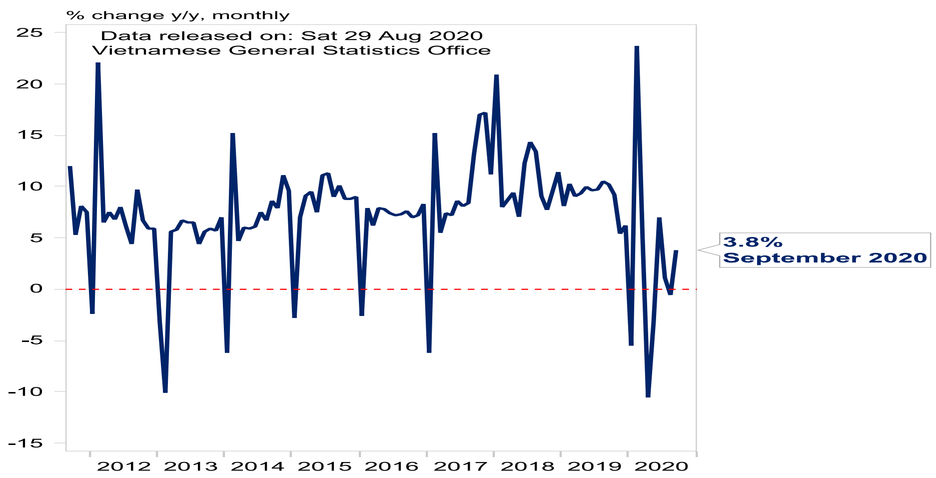
Vietnam: GDP YTD Growth Contributions By Main Sectors (% points)

Source: Macrobond, UOB Global Economics & Markets Research



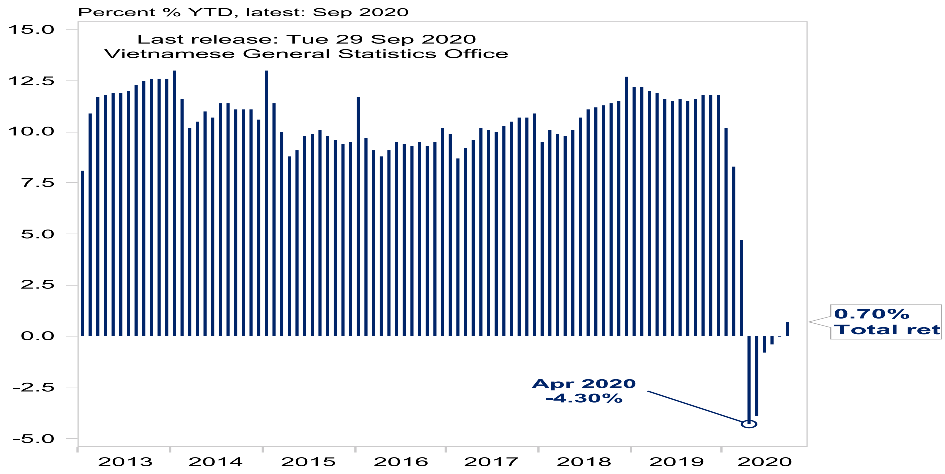
Vietnam: Industrial Production

Source: Macrobond, UOB Global Economics & Markets Research



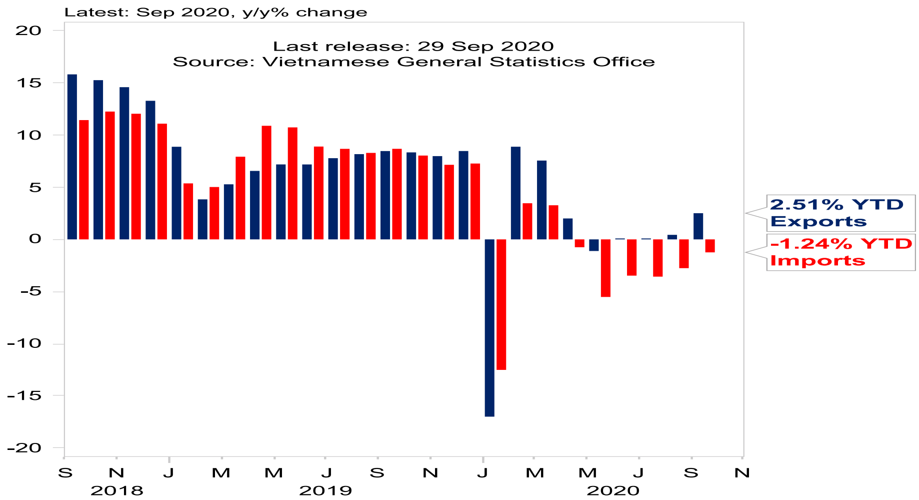
Vietnam: Domestic Trade, Retail Trade

Source: Macrobond, UOB Global Economics & Markets Research



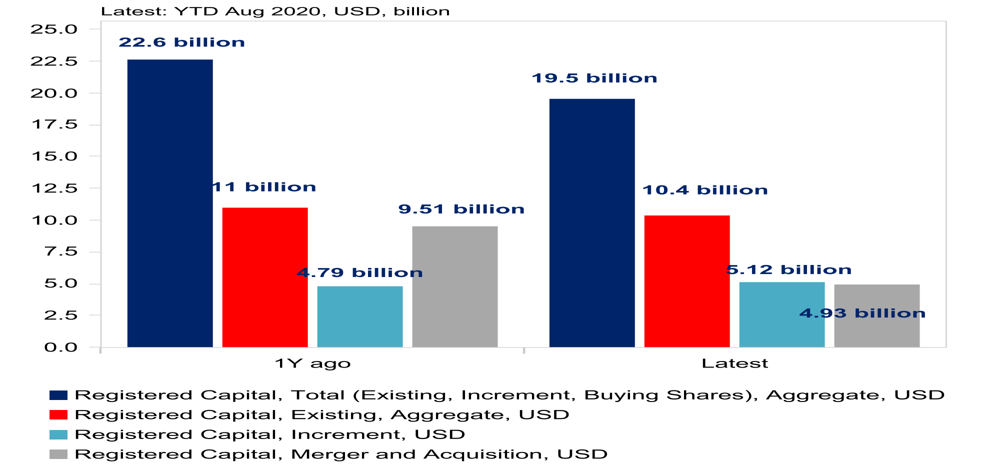
Vietnam: Foreign Trade, Monthly YTD

Source: Macrobond, UOB Global Economics & Markets Research



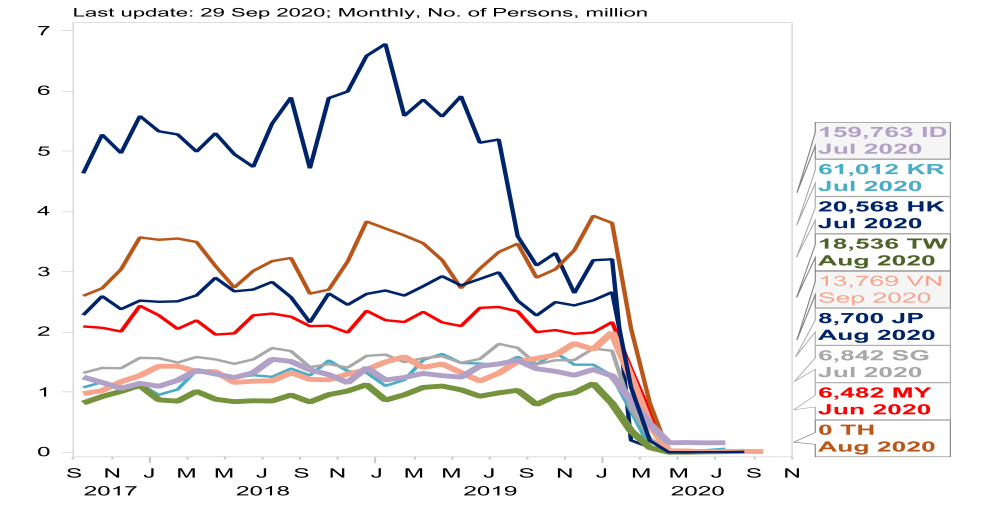
Vietnam: Foreign Direct Investment, Registered Capital (YTD Aggregate)

Source: Macrobond, UOB Global Economics & Markets Research



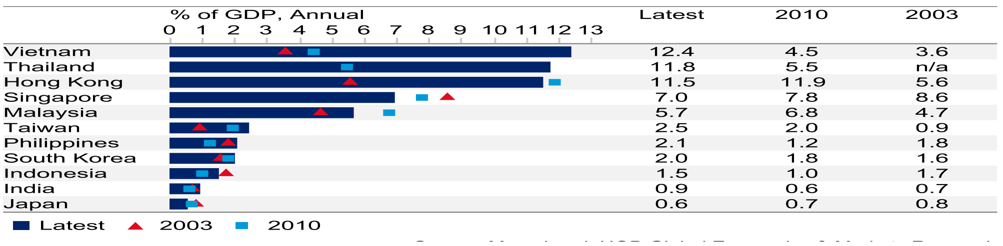
Asia: Inbound Tourist Arrivals

Source: Macrobond, UOB Global Economics & Markets Research



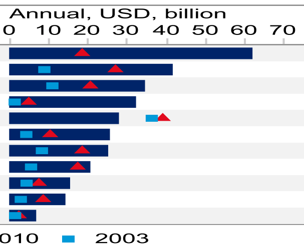
Tourist Revenue (% Of GDP)

Source: Macrobond, UOB Global Economics & Markets Research



Tourism Revenue (Annual, USD)

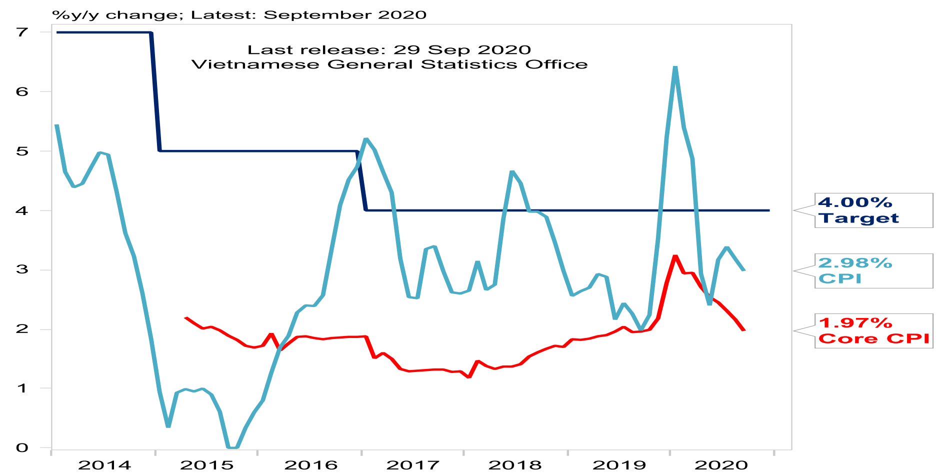
Source: Macrobond, UOB Global Economics & Markets Research



	Latest	2010	2003
Thailand	62.3 billion	18.7 billion	n/a
Hong Kong	41.9 billion	27.2 billion	9 billion
South Korea	34.8 billion	20.8 billion	11.1 billion
Vietnam	32.5 billion	5.03 billion	1.42 billion
Japan	28.1 billion	39.3 billion	36.5 billion
India	25.8 billion	10.5 billion	4.39 billion
Singapore	25.3 billion	18.7 billion	8.38 billion
Malaysia	20.8 billion	17.5 billion	5.6 billion
Indonesia	15.6 billion	7.62 billion	4.46 billion
Taiwan	14.4 billion	8.72 billion	2.98 billion
Philippines	6.92 billion	2.49 billion	1.52 billion

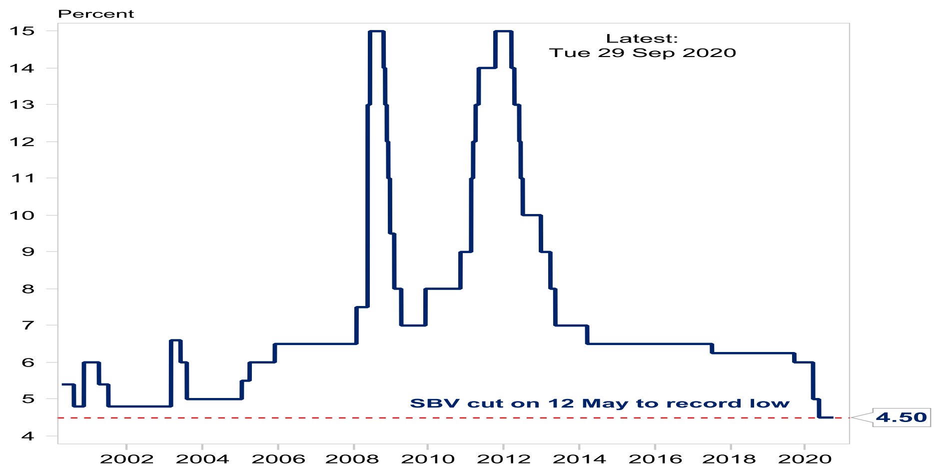
Vietnam: Consumer Price Index

Source: Macrobond, UOB Global Economics & Markets Research



Vietnam: Policy Rates, Refinancing Rate

Source: Macrobond, UOB Global Economics & Markets Research



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