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VNU UNIVERSITY OF
ECONOMICS & BUSINESS

VIET NAM QUARTERLY MACROECONOMIC REPORT

Quarter 4 - 2020

Supported by:

Konrad Adenauer Stiftung

SUMMARY

- Many economies experienced negative growth in Q3/2020. Oil prices rose due to Gulf tension and declining supplies.
- Large-scale stimulus packages continued to be deployed in many countries around the world.
- China's economy started to recover. However, the outbreak in Hebei province threatens to put Chinese manufacturing in a difficult situation in the first months of 2021.
- Fed continued to maintain interest rates at 0 - 0.25% and buy treasury bonds and mortagaged securities. The US government continued to implement fiscal support packages. On December 28, 2020, President Trump signed an 877 billion USD package of COVID-19 relief and government funding under the form of enhanced unemployment benefits through March 2021.
- In Europe, the ECB kept interest rates unchanged and spent an additional 120 billion EUR on the asset purchase package (APP) until the end of the year and another 600 billion EUR on the pandemic emergency purchase program (PEPP), bringing the total value of this program to 1,350 billion EUR. ECB decided to add 500 billion EUR to PEPP, bringing the total value of the plan to 1.85 trillion EUR, and planned to extend the program at least through the end of March 2022, granting more cheap loans to banks to encourage lending.
- While COVID-19 had serious impacts on the global economy, Vietnam's economic growth in Q4/2020 reached 4.48% (yoy).
- In 2020, the country had 134,900 newly registered enterprises, with a total registered capital of more than 2,235.6 trillion VND and 1,043 thousand registered employees, recording a decrease of 2.3% in the number of enterprises, an increase of 29.2% in registered capital, and a decline of 16.9% in the number of employees, compared to 2019.
- The average annual CPI climbed by 3.23% (yoy).
- The central rate of VND versus USD experienced a dip during Q3/2020, going down to 23,131 VND/USD at the end of the quarter. Exchange rates at commercial banks had a slight fall to 23,215 VND/USD.
- In general, the domestic gold price was closely following the progress of the world gold price. With the gloomy global economic outlook, the forecast for the next quarter will remain high.

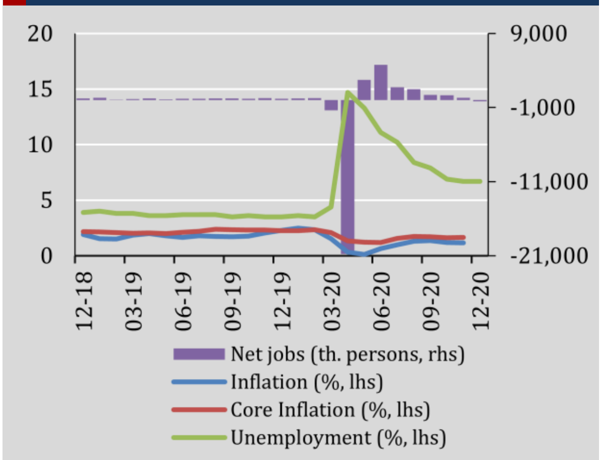
THE WORLD ECONOMY

The U.S. Economy contracted

The third estimates of the US Bureau of Economic Analysis (BEA) show that GDP growth in Q3/2020 improved compared to that of Q2, reaching 33.4% (qoq) and -2.8% (yoy) (while GDP growth in Q2 was -31,4% (qoq) and -9% (yoy)). The main reasons were the contraction of investment in equipment and means of production, the decline in exports, the decrease in domestic government spending (partly offset by an expansion of federal spending), and the cutback in consumption/retail. Positive changes in the developments of COVID-19 and in the conflicts with China during Q3/2020, as well as the expectations on the production of COVID-19 vaccines, improved the business confidence of US manufacturing enterprises in the quarter.

At the end of November, inflation rate reached 1.17%, and core inflation rate reached 1.65%. The manufacturing and services indicators continued to show positive signs in Q4, where NMI was 59.4 at the end of November, showing signs of recovery in business activity. NMI New Orders also remained above 50, suggesting the recovery of manufacturing. However, in Q1/2021, due to the political instability arising during the election of new president and the return of the COVID-19 outbreak, manufacturing in Q1/2021 could be affected.

Inflation and Unemployment rate (%, yoy)

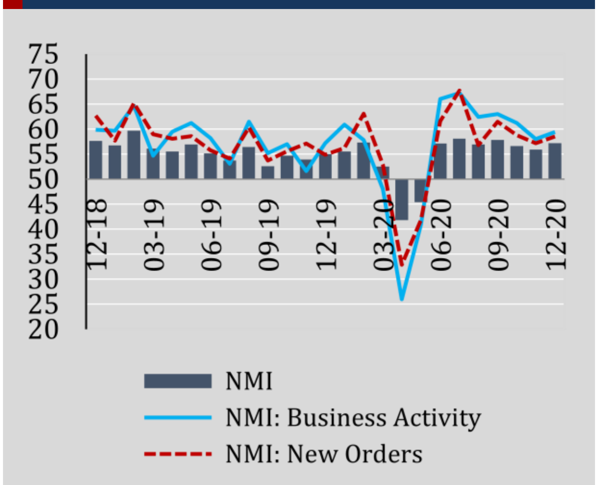


Source: BLS

The unemployment rate (seasonally adjusted) plunged to 6.7% in September, indicating a huge improvement from 14.7% in April as the lockdown measures were imposed. The number of new jobs dropped by 140 thousand person in December as the pandemic came back.

Fed lowered interest rates to 0-1/4% in March and planned to keep this rate through 2023 while continued to buy treasury bonds and mortgage-backed securities to adjust the market. At the same time, a series of fiscal aid packages have

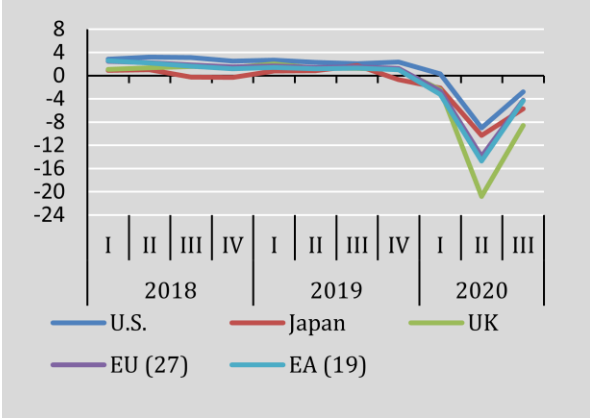
U.S. non-manufacturing index



Source: ISM

been launched within legal frameworks to protect small businesses, workers, and households from COVID-19 such as the Family First Coronavirus Response Act (FFCRA), Coronavirus Aid, Relief, and Economic Security Act (CARES), and the paycheck protection program (PPP). From April to mid-July, these programs reduced the number of small businesses that declared bankruptcy by 1.8% (yoy). Additional unemployment benefits and tax refunds also increased disposable income, and there was evidence that poor households benefit the most from these policies.

Economic Growth in Selected Advanced Economies (%, yoy)



Source: OECD

On December 28, 2020, President Trump signed an 877 billion USD package of COVID-19 relief and government funding which included enhanced unemployment benefits through March 14 2021, direct payments of 600 USD to individuals, addition to PPP, payments for vaccines and testing, and K-2 education funding.

COVID-19 and expansionary fiscal policies caused massive budget losses. According to the report of the US Department of Finance on October 16, the US budget deficit rate in 2020 more than tripled to a record high of 3.1 trillion USD, equivalent to about 16% of the country's GDP. This marked the highest budget deficit since 1945. With this deficit, public debt is estimated at nearly 27 trillion USD. With this deficit, public debt was nearly 27 trillion USD. Widening public debt may reduce the confidence of US bond investors, which is a long-term concern for this country.

European economies continued to deteriorate

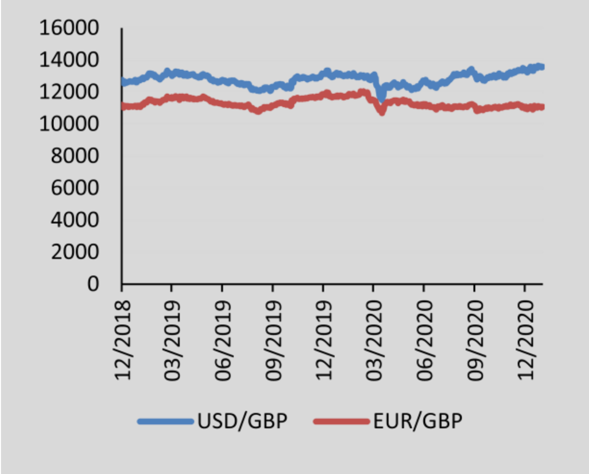
Europe's economy continued to weaken, following the pre-pandemic trend. Specifically, the EU27 and EA19 regions contracted at the rate of negative 4,2% (yoy) and negative 4,3% (yoy) in Q3/2020, respectively, which were higher than those of Q2 (negative 13,9% (yoy) and negative 14,7%(yoy)) due to the improvement in pandemic control in Q3. However, the resurgence of the pandemic in Q4/2020 due to the emergence of a new SARS-COVID-2 variant caused many countries in the region to continue to apply a social distancing order that could severely impact the recovery of the economy.

Facing the outbreak of COVID-19, in April, the European Central Bank (ECB) added 120 billion EUR to its Asset Purchase

Program (APP) through the end of 2020 and 750 billion EUR to its Pandemic Emergency Purchase Program (PEPP). In June, ECB spent another 600 billion EUR, bringing the total value of PEPP to 1,350 billion EUR. By the end of September, ECB kept the interest rates within the range of negative 0.5% to 0% and continued to reinvest principal payments from matured securities purchased under the APP to maintain favorable liquidity conditions and currency abundance. Regarding fiscal policy, in the first nine months of the year, European leaders agreed to offer support packages with a total value of 540 billion EUR to member countries in the form of loans to support the labor market and SMEs. At the end of September, the European Commission approved an 87.4 billion EUR financing package for member countries to protect their labor market. According to the latest announcement on December 10, 2020, the ECB decided to spend an additional 500 billion EUR on the Pandemic Emergency Purchase Program (PEPP), bringing the total value of the program to 1.85 trillion EUR, extend the program to at least until the end of March 2022, and encourage lending by providing more cheap loans to banks.

EU27 employment situation continued to worsen in Q4/2020. The unemployment rate was 7.6% in November. Inflation has remained below 1% since April, ending up at 0.2% at the end of November, of which core inflation was 0.7%.

EUR/GBP and USD/GBP exchange rate



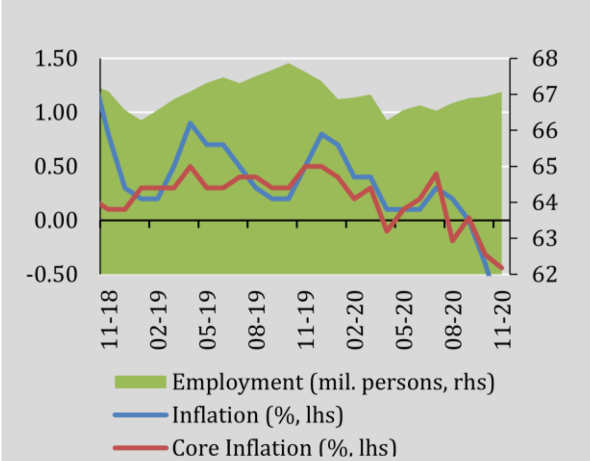
Sources: BoE (2019)

The EUR/GBP rate remained fairly stable during Q4, fluctuating moderately between 10,964 EUR/GBP and 11,250 EUR/GBP. Meanwhile, the USD/GBP rate increased marginally by 5.6% from the beginning of the quarter due to the appreciation of the USD. At the end of Q4/2020, USD/GBP was 13,590; EUR/GBP was 11,088.

The UK economy plummeted with the growth rate of negative 8.6% in Q3, higher than that of Q2 (negative 20,8%) as the better control of the pandemic in Q3 made economic outlook bright again and investment and business activities slightly improve. However, the enactment of a national lockdown on January 4, 2021, resulting from the resurgence of the outbreak, could put the UK economy in crisis in the early months of 2021.

In response to the severe economic and financial disruption caused by the spread of COVID-19, the Bank of England (BoE) cut interest rates to 0.1% in January and maintained it until now while simultaneously put the Term Funding Scheme into operation with additional incentives for SMEs (TFSME), 300 billion GBP of quantitative easing to purchase UK government bonds, and 645 billion GBP of corporate bonds. In September 2020, BoE announced to extend the loan term for TFSME to ten years, instead of four to six years as before. In terms of fiscal policy, government loan guarantee programs have helped UK firms borrow an additional 70 billion GBP in the first eight months of 2020. Home loan rescheduling support measures have reduced 1.9 million GBP temporary financial burden on households. In the context of the second shutdown, the government launched a new relief package in November that included the following schemes: postponing the JSS, canceling the job retention bonus, extending the CJRS through the end of March with the replacement ratio back at 80 percent, increasing SEISS grants to 80% of income, and extending the application period for government-guaranteed loans until the end of January. On January 5, 2021, the British government launched an additional 4.6 billion GBP financial aid package to support struggling UK companies.

Japan's Inflation and Employment

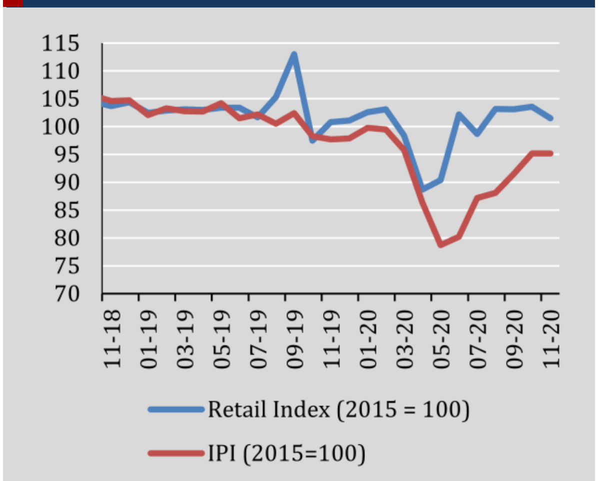


Source: Statistics Bureau of Japan

Japan's economy was hit harder by the pandemic

After suffering from the heavy effects of the US-China trade war and the pandemic since the second half of 2019, Japan's economy recovered in Q3/2020, with the growth rate reaching negative 5.7% (yoy), showing a substantial surge compared to that of Q2 (with a growth of negative 10.3%). Retail, production, business, and export activities strongly recovered. The Retail Index started to pick up in May and continued this trend until November, reaching 101.5. The industrial production

Japan's Retail Sales and Industrial Production (seasonally adjusted)



Source: Japan Macro Advisors

index remained at 95.2 in November. Inflation slipped back during Q3 and Q4/2020. Headline inflation ended up at negative 0.9% in November, and core inflation remained at negative 0.44%. Low inflation expectations due to falling oil prices and extended effects of COVID-19 may keep the economy in deflation in the near future. However, the new wave of COVID-19 outbreak in late December poses a big challenge to the Japanese economy in Q1/2021. On January 7, 2021, Prime Minister Yoshihide Suga declared a state of emergency in the capital, Tokyo, and surrounding areas. It is forecasted that the Japanese economy in Q1/2020 is likely to slump again as companies reduce investment and households increase saving.

The Bank of Japan maintains a monetary easing policy by setting short-term interest rates at negative 0.1% and long-term rates (annual) at around 0% with an aim of achieving inflation target at 2%. To support the economy to overcome current difficulties, BoJ buys additional assets including government bonds, purchases ETF and JREIT worth 12 trillion JPY and 180 billion JPY, respectively, and buys

Job offers to applicant ratio (%, yoy) (seasonally adjusted)

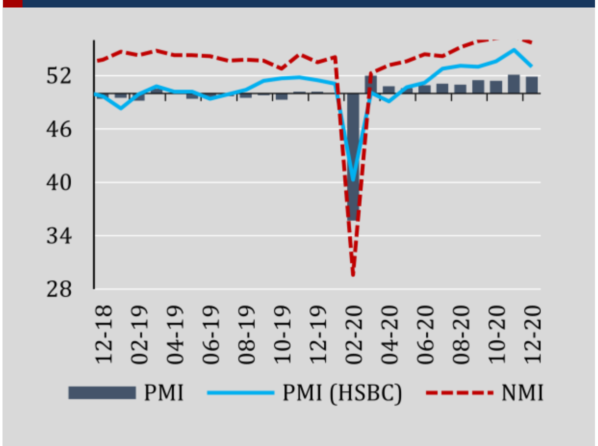
Source: Japan Macro Advisors

additional commercial paper and corporate bonds, each of which was worth 7.5 trillion JPY, until the end of March 2021. By the end of November, the BOJ has been holding 45.1 trillion JPY of Japanese stock through ETF. On December 8, 2020, the Government of Japan approved a relief package, called Comprehensive Economic Measures to Secure People's Lives and Livelihoods toward Relief and Hope. The relief package was worth 73.6 trillion yen.

China's economy recovered

China's economy in Q3/2020 continued recovery with a growth rate of 4.9% after a rise of 3.2% in Q2. The PMI and NMI both remained above 50, starting from March until the end of 2020, showing that the production of this country was still on a

China's PMI & NMI



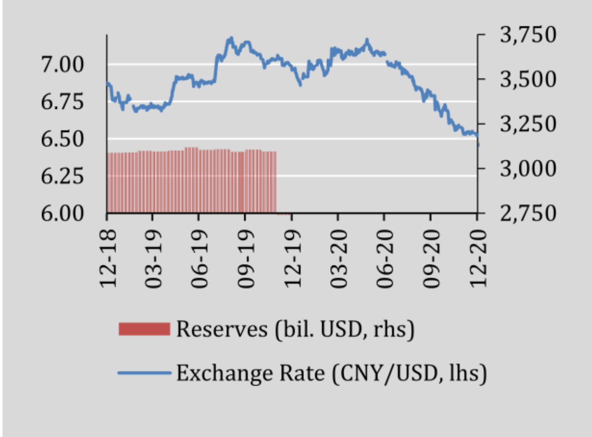
Source: AASTOCKS

recovery trend. The outbreak at the end of the year in Hebei Province threatened to put Chinese manufacturing in a difficult situation in the early months of 2021.

On the foreign exchange market, the CNY/USD exchange rate fluctuated on a downward trend in Q4, and CNY tended to strengthen after continuously weakening in Q1 and Q2. Due to the effective control of the pandemic in Q2 and Q3 and strong consumer demand of other countries as they preparing for year-end shopping, the November trade surplus reached its highest level since 2018, which was 75.4 billion USD. This put pressure on the CNY, which appreciated 6.3% against the USD (from the beginning of 2020).

As of 2020, PBoC had three times cut the required reserve ratio at commercial banks and at the same time provided approximately 1.8 trillion CNY to commercial banks to ensure their ability to supply capital to the economy. PBoC continues to carry out the 500 billion RMB re-loan program and the 300 billion RMB special re-loan program and at the same time spent 1 trillion RMB on the next re-loan and rediscounting policies. In terms of fiscal policy, the Chinese government continued to implement an expansionary fiscal policy as well as gets ready to double the budget deficit in 2020. As of 2020, nearly 300 billion RMB in the 2 trillion RMB fiscal stimulus package has been used to support tax and fee deductions for businesses; the remainder is transferred directly to the local authority to promote regional economic growth. The country's budget revenues began to look up in June.

China's Exchange Rate



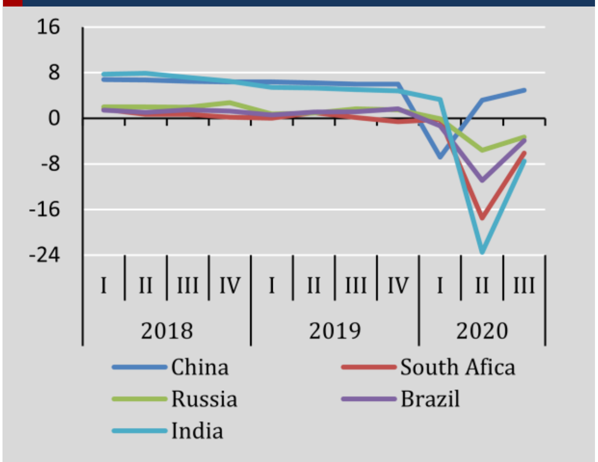
Source: FRED, PboC

BRICS economies recovered in Q3/2020

In Q3/2020, the economies of BRICS countries recovered.

Indian economy saw a growth of negative 7.5% (yoy) in Q3, higher than the growth in Q2 (negative 23% (yoy)) thanks to a sharp upturn in FDI. In the period of April-September 2020, according to the Ministry

Economic Growth in BRICS (%, yoy)



Source: OECD

of Industry and Trade of India, the total FDI inflows into this country was 500.12 billion USD. From the beginning of 2020, in order to support the economy, the Indian government launched a 2.1 billion USD aid package for the health sector; announced a 22.5 billion USD spending plan to help the poor cope with the epidemic; extended the deadline for paying income tax and goods and services tax (GST). Along with that, the Reserve Bank of India also decided to cut the repo rate for commercial banks to 4.4%, trimmed the reverse repo rate to 3.35% when commercial banks sent money to the Reserve Bank of India, allowed three-month debt rescheduling for commercial banks, and reduced the required reserve ratio at commercial banks to 3%. In the meeting on December 4, the Monetary Policy Committee (MPC) decided to keep the current interest rate. On November 14, 2020, the Minister of Finance launched a comprehensive economic stimulus package worth 2.65 lakh crore INR.

In Q3, the Russian economy witnessed a negative growth of 3.3% (yoy) due to the slowdown in the growth of the agriculture, construction, and retail industries along with the erratic oil prices. In order to stabilize the domestic economic situation, in 2020, the Central Bank of Russia has lowered interest rates four times in total, from 6.25% to 4.25%. The Central Bank also allowed commercial banks to not raise provision when restructuring debts for customers affected by COVID-19, and also offered loan programs with preferential interest rates of 0-5% to help businesses pay salaries and maintain operation. In addition, 300 billion RUB was provided to assist people who lost their jobs due to lockdown measures.

South Africa's economy recovered in Q3/2020, with a growth of negative 6.1% (yoy) (Q2 growth was 17.5% (yoy)), in which construction and industry contracted the most. The disagreements arising in the restructuring of state-owned corporations, such as Eskom and the South African Airline, also made it difficult to improve the country's budget deficit, at least in the near future. As COVID-19 broke out, the need for economic support measures heightened the pressure on budget revenues. The South African Reserve Bank (SARB) lowered the policy rate four times in 2020 to 3.5%. At the end of April, the government of this country also issued a 29 billion USD economic stimulus package to support the people, but so far, the implementation of this policy was considered ineffective due to corruption.

Brazil's economy in Q3/2020 had a growth rate of negative 3.9% (yoy) due to the influence of COVID-19. In response to the epidemic, the Brazilian government has launched a 150 billion USD support package through social subsidies, tax deferrals, and unemployment funds. Brazil's central bank cut the reference rate (SELIC) to a record low of 3.75% in March and further lowered the interest rate to 2% in August. The Brazilian government also spent 50 billion USD on "corona vouchers" to support informal workers to cope with the epidemic.

ASEAN economic growth was weak

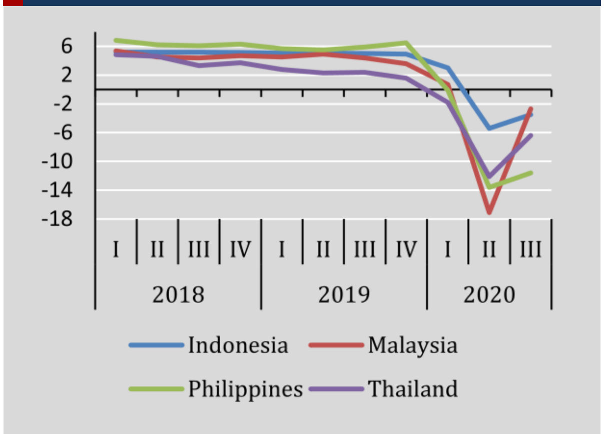
In the third quarter of 2020, the growth of ASEAN-5 countries (Indonesia, Malaysia, Philippines, Thailand, and Vietnam) continued to decline.

Indonesia's economy grew at the rate of negative 3.5% (yoy) in Q3 due to the impact of the COVID-19 epidemic. At the end of March, the Indonesian government announced an additional 24.8 billion USD to protect the economy in 2020 through economic recovery programs, health spending, social subsidies, tax incentives, and tax credit for business. Another 47.6 billion USD stimulus package was approved in June. By the end of November, Bank Indonesia has lowered the policy rate four times by 125 bps in total to 3.75% to support the economy. It is estimated that these measures will push the budget deficit up to 6.34% of GDP.

In Q3/2020, the economic growth of the Philippines reached negative 11.6% (yoy) due to the slump in domestic consumption and investment as a result of COVID-19. In mid-March 2020, the Philippines government decided to lock down Manila to contain the spread of the disease, causing the economy to stall. The government launched a 526 million USD financial support package to fight the epidemic and support workers, SMEs, and the tourism sector. In May, the government continued to issue an 11.9 billion USD fiscal aid package for vulnerable groups. In mid-September, another stimulus package worth 3.4 billion USD was approved to revive the economy after the pandemic. In 2020, the Central Bank of the Philippines (BSP) has trimmed the policy rate five times (200 bps in total) to 2%, reducing the required reserve ratio in commercial banks, and continued to purchase 300 billion PHP of government securities to enhance market liquidity. BSP has also increased the cap on banks' real estate loans from 20% to 25% of their total loan portfolio.

Thailand's economic growth plummeted in Q3 to negative 6.4% (yoy) because COVID-19 severely affected tourism, international trade, and domestic production. During the first three months of the year, Thailand's Ministry of Finance launched a 3.17 billion USD emergency aid package to support low-income workers and the poor. The Thai Bankers Association approved a Corporate Bond Stabilization Fund (BSF) that was worth around 3.2 billion USD to support

Economic Growth in ASEAN-4 (%, yoy)



Nguồn: CEIC

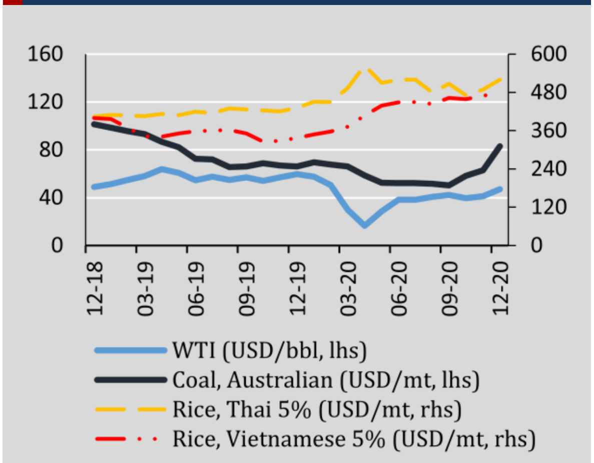
businesses that were unable to repay due bonds. As of mid-June, the Thai cabinet has approved a 46.8 billion USD fiscal package to prop up the economy. Another stimulus package of 2.2 billion USD was approved in early September to support unemployed workers, which included direct subsidies for about 15 million people and support measures for private enterprise in labour recruitment. Approximately 1.63 million USD will also be used to directly support consumption of low-income people. Since the beginning of the year, the Bank of Thailand has cut the policy rate by 75 bps to 0.5%, and the financial institution's contribution to the FIDF has fallen from 0.46% to 0.23% to create fiscal space for reducing interest rates in the future.

Malaysia's economy experienced a negative 2.7% growth in Q3. The main reason was the decline in services, manufacturing, construction, and private consumption. During the first three months of the year, the Malaysian government launched three economic stimulus packages totalling 65 billion USD to combat the effects of the COVID-19 epidemic. In June, the fourth relief package was approved with the spending of approximately 5 billion USD on wage assistance and corporate tax deferral. Another support package of about 2.4 billion USD was announced at the end of September to provide direct support to people and ensure the ability of businesses to pay salaries. By the end of 2020, the Central Bank of Malaysia (BNM) has cut the policy rate three times (125 bps in total) to 1.75% and lowered the required reserve ratio in commercial banks to 2%.

Commodity and asset markets

In the world commodity market in Q4/2020, there was a strong differentiation in prices between energy and food products. Crude oil prices in Q4 increased slightly, ending up at 41 USD/barrel at the end of December, lower than 42.4 USD/barrel in September due to the outbreak in many countries. It is forecasted that oil prices will continue its upward trend in Q1/2021 as Saudi Arabia suddenly announced an output reduction of 1 million barrels/day lasting from February to the end of March, along with escalating tensions in the Middle East Gulf. Regarding other energy commodities, Australian coal saw a rise in prices to 83 USD at the end of the quarter.

Commodity Prices



Source: The Pink Sheet – WB

In terms of food products, rice prices went up in Q4. By the end of December, Thai rice prices reached 520 USD/ton, while Vietnamese rice prices ended up at 477 USD/ton at the end of the quarter, notably higher than that of the same period of the previous year (377 USD/ton). The pandemic broke out again in the fourth quarter, causing the world demand for rice to skyrocket, while the supply did not increase significantly as an impact of the drought, leading to a rise of approximately 20% in Thai rice prices and more than 41% in Vietnamese rice prices as compared to those of December 2019. Rice prices are expected to soar until the new harvest in 2021. On the asset market, the world gold price fluctuated dramatically in the quarter and surged in December, ending up at 1,887.6 USD/oz after taking a nosedive on November 24 to 1,799.6 USD/oz. Geopolitical tensions and the pandemic made the world economic outlook precarious and, coupling with the weakening of major currencies, pushed up investors' demand for gold, causing gold prices to hit their highest levels in three years.

Global Economic Prospect (%)

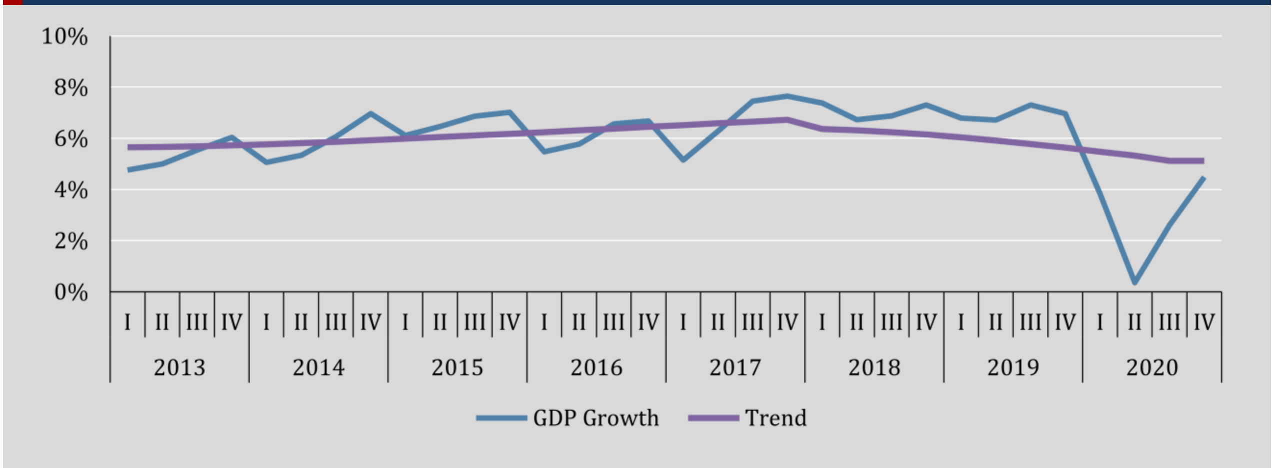
	WEO (10/2020 IMF)			GEP (1/2021, WB)		
	2019e	2020p	2021p	2019e	2020e	2021p
World	**2,8**	**-4,4(0,8)**	**5,2(-0,2)**	**2,3**	**-4,3 (0,9)**	**3,8 (-0,2)**
Developed economies	**1,7**	**-5,8(2,3)**	**3,9(-0,9)**	**1,6**	**-5,4 (1,6)**	**3,5 (-0,6)**
U.S.	2,2	-4,3(3,7)	3,1(-1,4)	2,2	-3,6 (2,5)	3,3 (-0,5)
Eurozone	1,3	-8,3(1,9)	5,2(-0,8)	1,3	-7,4 (1,7)	4 (-0,9)
U.K.	1,5	-9,8(0,4)	5,9(-0,4)			
Japan	0,7	-5,3(0,5)	2,3(-0,1)	0,3	-5,3 (0,8)	2,3 (0)
Emerging and developing economies	**3,7**	**-3,3 (-0,2)**	**6,0(0,2)**	**3,6**	-2,6 (-0,1)	4,2 (0,4)
Russia	1,3	-4,1(2,5)	2,8(-1,3)	1,3	-4,0 (2)	3,0 (-0,1)
China	6,1	1,9(0,9)	8,2(0,0)	6,1	2,0 (1)	5,2 (1)
India	4,2	-10,3(5,8)	8,8(2,8)	4,2	-9,6 (-6,4)	5,2 (2,3)
Brazil	1,1	-5,8(3,3)	2,8(-0,8)	1,1	-4,5 (3,5)	2,5 (0,8)
South Africa	0,2	-8,0(0,0)	3,0(-0,5)	0,2	-7,8 (-0,7)	1,7 (0,4)
ASEAN-5	4,9	-3,4(-1,4)	6,2(0,0)			
Indonesia	5	-1,5(-1,2)	6,1(0,0)	5,0	-2,2 (-2,2)	4,8 (-0,4)
Malaysia	4,3	-6,0(-2,2)	7,8(1,5)	2,4	-5,8 (-2,7)	6,7(-0,2)
Philippines	6	-8,3(-4,4)	7,4(0,6)	6	-8,1 (-6,2)	5,9 (-0,3)
Thailand	2,4	-7,1(0,6)	4,0(-1,0)	2,4	-6,5 (-1,5)	4,7 (-0,1)
Vietnam	7,0	1,6	6,7	7	2,8 (0,0)	6,7 (-0,1)
Laos				4,7	-0,6 (-1,6)	4,9 (0,3)
Cambodia				7,1	-2,0 (-1)	4,0 (-2)
Myanmar				6,3	1,7 (0,2)	2,0 (-4)

Source: World Economic Outlook (IMF), Global Economic Prospects (WB)

THE VIETNAM ECONOMY

Economic Growth

Vietnam's Economic Growth (%, yoy)

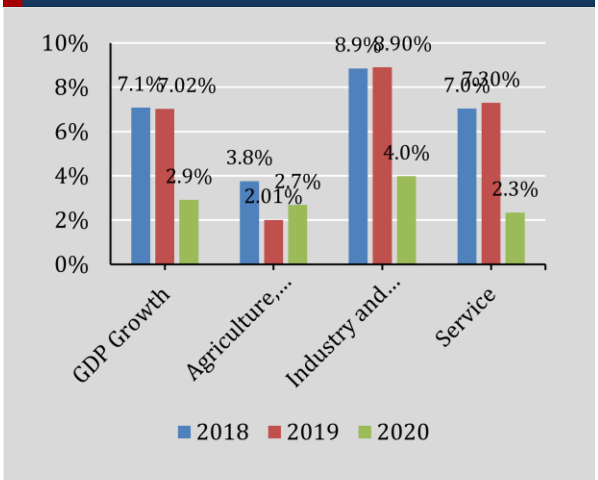


Source: Calculation from GSO data

Vietnam's economic growth in Q4/2020 reached 4.48% (yoy), higher than that of Q3/2020 (2.62% (yoy)). In general, in 2020, Vietnam's GDP grew by 2.91%. In general, in 2020, the agriculture, forestry, and fishery sector increased by 2.68% (yoy); industry and construction increased by 3.98% (yoy); the service sector increased by 2.34% (yoy).

In 2020, the agricultural, forestry and fishery sector faced many difficulties due to the impact of drought, saline intrusion, natural disasters, African swine fever, and COVID-19, which affected production, import, and export of agricultural products. Specifically, compared to 2019, agriculture grew by 2.55% (yoy), forestry grew by 2.82% (yoy), and fishery grew by 3.08% (yoy). The agricultural sector expanded robustly compared to 2019 (0.61%) due to the better control of African swine fever in 2020, along with a strongly increasing demand for rice imports from other countries around the world as a consequence of the COVID-19 pandemic. The adverse impacts of saline intrusion on aquaculture, plus the export market not fully recovered, causing industry growth in 2020 to reach the lowest level in three

Economic growth by sector in 12 months (%, yoy)



Source: GSO

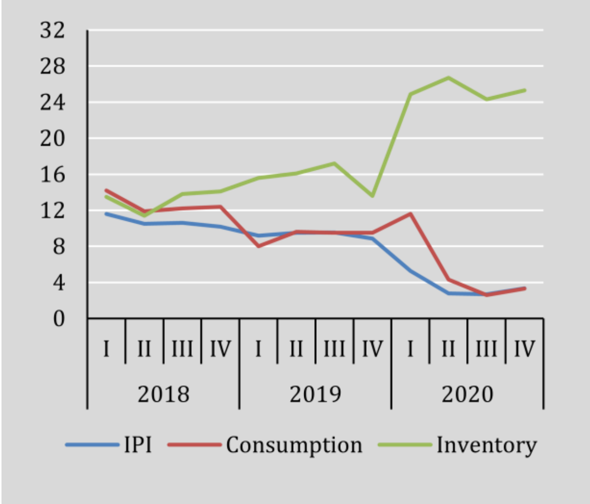
years. Making good use of EVFTA's advantages will create a driving force for the long-term growth of the agriculture, forestry, and fishery sector.

In the industry and construction sector, the industry in 2020 increased by 3.36% (yoy), significantly lower than the growth rate of the same period in the last ten years (8,9% in 2019 and 8,85% in 2018). The manufacturing and processing industry gained by 5.82% (yoy). The mining industry shrank by 5.62% (yoy) due to the slump in the output and price of crude oil and natural gas. The construction industry rose by 6.76% (yoy).

The construction sector expanded most rapidly in the industry and construction sectors thanks to the vigorous growth in public investment. As of December 2020, realized investment capital from the State Budget reached 33.7% of the plan, higher than that of 2019 and 2018 (31% and 33%, respectively), indicating an increase of 14.5% (yoy). Disbursement of public investment capital is shown to be an effective temporary driver for economic growth.

The service sector in 2020 hit bottom compared to the same period of the last 10 years (2,3% (yoy)). In the service sector, wholesale and retail expanded by 5.53% (yoy), and finance, banking and insurance expanded by 6.87% (yoy), while transportation and warehouse contracted by 1.88% (yoy), and accommodation and catering services contracted by 14.68% (yoy) due to the profound impacts of the pandemic on the tourism industry. International visitors to Vietnam in 2020 were estimated at only 3.83 million arrivals, dropped by 78.7% (yoy).

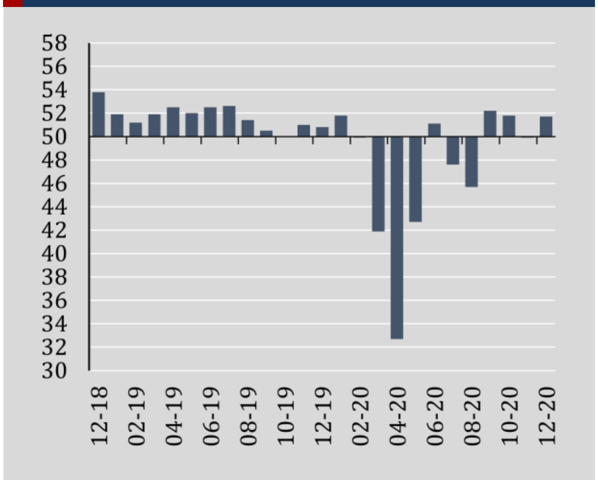
Selected Industrial Indicators (%, ytd)



Source: GSO

The industrial production index (IPI) in 2020 escalated by 3.36% (yoy), and the consumption index of the entire manufacturing and processing sector dived 2.3% (yoy). The average inventory index has climbed rapidly since 2018 to 25.3% in

Vietnam's PMI



Source: Tradingeconomics

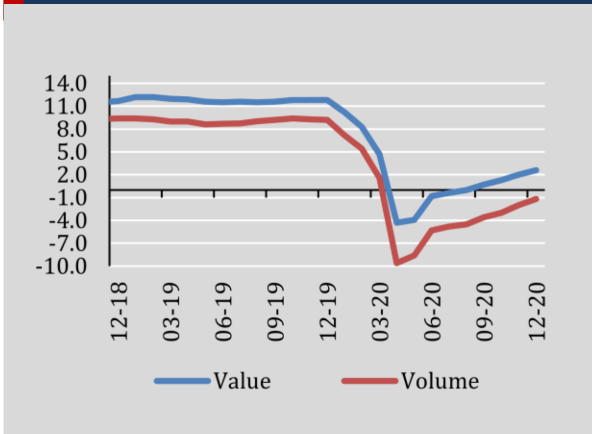
2020, higher than that of 2019 (13.6%). This shows that the domestic enterprises are temporarily shuting down production and reducing production scale.

Manufacturing faces difficulties

COVID-19 had a strong negative influence on Vietnam's manufacturing sector in 2020. Supply chain disruptions and lower demand from import markets severely affected the number of new orders and volumes. Natural disasters occurred regularly, causing the PMI to drop below 50 points in November. By the end of 2020, the PMI ended up at 51.7 points, showing that businesses are making efforts to resume production to serve consumer needs during Tet 2021.

Survey results on business trends of enterprises in the manufacturing industry in the Q4/2020 showed that: 40.6% of enterprises believe the business performance in Q4 of 2020 was better than Q3, 24.7% state it was difficult, and 34.7% said that the business and production situation was stable. This result is brighter than that of Q3/2020 (the figures were 32.2%, 31.9%, and 35.9%, respectively), showing that after the COVID-19 outbreak in Da Nang, business confidence has improved. It is expected that in Q1/2021, compared to Q4/2020, 42.8% of businesses believe the business performance will improve, 19% of businesses state it will be difficult, and

Retail Growth (%, ytd, yoy)



Source: GSO

Source: GSO

38.2% of businesses think that the business and production situation will be stable.

Generally, in 2020, the whole country reported 134.9 thousand newly registered enterprises with a total registered capital of over 2,235.6 trillion VND and a total of 1.043 million registered employees, suggesting a fall of 2.3% (yoy) in the number of enterprises, an climb of 29.2% (yoy) in the registered capital, and a dip of 16.9% (yoy) in the number of employees as compared to 2019. Besides, there are 44.1 thousand enterprises returning to operation, showing an upswing of 11.9% compared to that of 2019.

In 2020, the number of enterprises temporarily suspending their business was 92.79 thousand, going up by 16,7% compared to that of the previous year, which was higher than the growth in 2019 (a plunge of 20.4%).

Retail activities, service business recovered cautiously

Retail and service business activities in Q4 are on the increase, in comparison to the lowest level in April 2020, but remained low.

Total retail sales of consumer goods and services in the Q4/2020 were estimated to reach 1,387.6 trillion VND, improving by 8% (yoy). The disease was controlled in Q3, tourism in many cities reopened, and the rising demand for entertainment promoted growth in commercial activities.

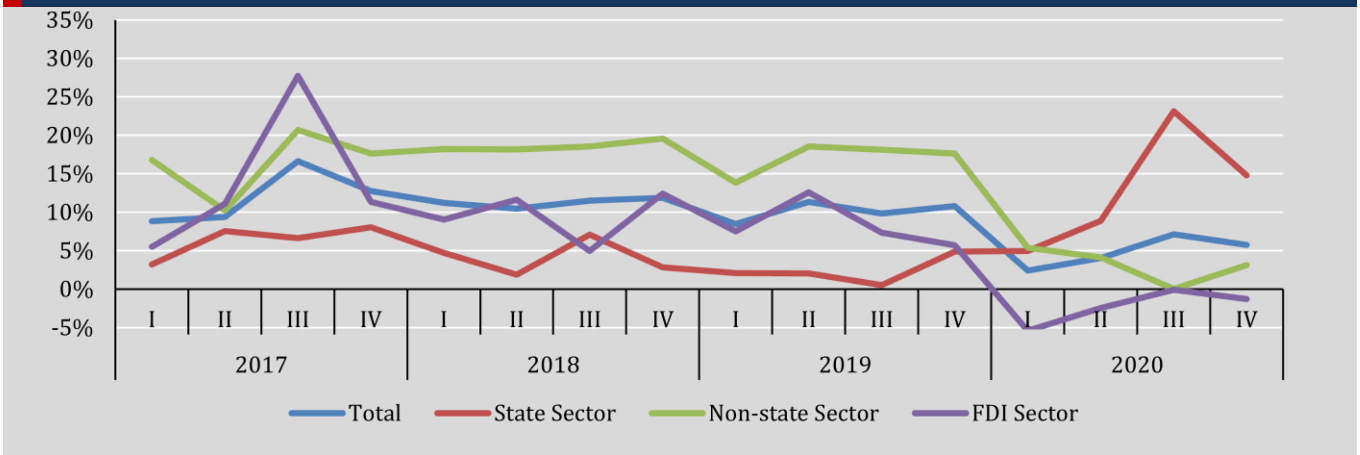
In 2020, total retail sales of consumer goods and services reached 5,059.8 trillion VND, climbing by 2.6% and dropping by 1.2% if excluding the price factor (in 2019, sales increased by 9.5%).

Investment capital growth from the state sector accelerated sharply

In Q4/2020, social investment capital gained 7.5% (yoy) to 719.6 trillion VND. Social investment in 2020 reached 2,164.5 trillion VND, going up by 5.7%, the lowest increase in the last 10 years, due to the impact of the COVID-19 pandemic on the national economy.

In general, in 2020, the non-state sector still accounted for the largest proportion (44.9%) in the total investment capital of 972.2 trillion VND, but the growth was only 3.15% compared to the previous year, lower than the rate in 2019 (17.3%). Investment capital from the state sector jumped to 729 trillion VND, which added up 33.68% and marked an increase of 14.8% compared to the previous year (in 2019 grew by 2.55%) thanks to the efforts to boost public investment disbursement

Total Social Investment (yoy), 2017-2020



Source: Calculation from GSO data

to promote economic growth in Vietnam in the context of the COVD-19 pandemic. Foreign direct investment fell by 1.3% compared to 2019.

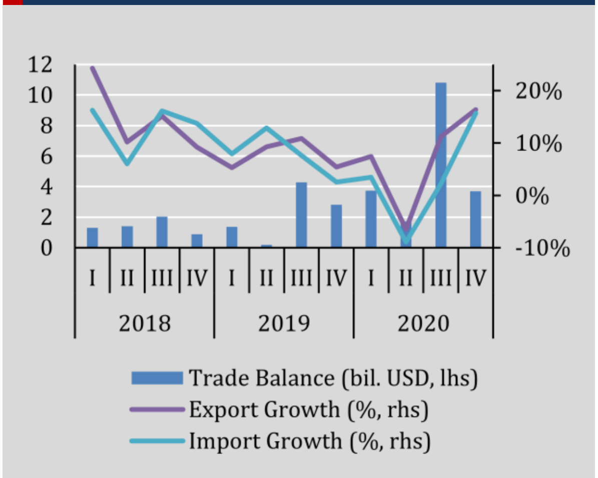
Newly registered foreign investment inflows in Q4/2020 was 4.2 billion USD, recording an climb of 114% (qoq) and a drop of 27.29% (yoy). Realized FDI went up 20% (qoq), reaching 6.2 billion USD. Generally, in 2020, the total newly and additionally registered foreign investment capital was 21 billion USD, going down by 6.87% compared to 2019 (in 2019, it was 22.55 billion USD, down by 11.82%), and realized capital hit 20 billion USD, declining by 2% (in 2019, it was 20.38 billion USD, rising by 7.26% (yoy)). Newly and additionally registered foreign investment capital in 2020 dipped marginally by only 6.87%, showing that despite the challenging situation caused by the pandemic and US-China trade disputes, Vietnam was a reliable destination from the viewpoint of FDI investors.

The complex developments of the pandemic in Vietnam's major investment partners such as Singapore, South Korea, and China stays in a bad state, substantially affecting the FDI inflows from these countries to Vietnam. In 2020, Singapore was the country with the largest FDI, which was 9 billion USD, contributing 31.5% of total flows. That was followed by Korea with 3.9 billion USD, dropping by 46.6% (yoy), China with 2.46 billion USD, decreasing by 46.8% (yoy), etc.

In 2020, there were 2,522 newly licensed projects with registered capital of 14.6 billion USD, suggesting a fall of 29.4% (yoy) in the number of projects and 12.5% (yoy) in the registered capital.

In 2020, the manufacturing and processing industry was the leading FDI recipient, with registered capital of newly licensed projects reaching 13.6 billion USD, representing 47.7% of total newly registered capital. The second largest was the production and distribution of electricity, gas, hot water, steam, and air conditioning, with nearly 5.1 billion USD, contributing 18% of total. The electricity production and distribution sector (clean energy) has great potential due to the growing demand for electricity in Vietnam and the fact that investing in this sector is the top priority of the Government. Some prominent investment projects as of the end of 2020 include Singapore's Bac Lieu Liquefied Natural Gas Power Plant Project with a registered investment capital of 4 billion USD to produce electricity from

Trade Balance and Growth



Source: GSO

liquefied natural gas; Taiwan's Vietnam Pegatron Project with an investment capital of 481 million USD to produce gaming equipment, phone accessories, smart speakers, game controllers, and computers in Hai Phong; Victory Project of Henan, Taiwan, with a total investment capital of 273 million USD, Philippines' wind farm projects, etc.

Trade balance recorded a surplus of 19.95 billion USD in 2020

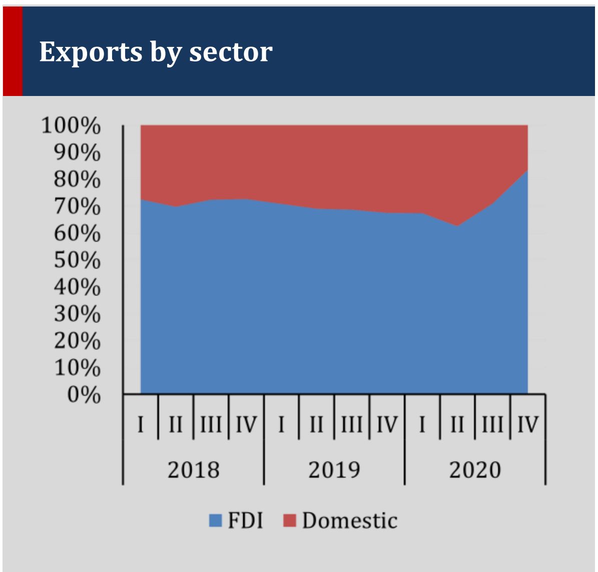
According to the General Department of Customs, the trade balance in Q4 was estimated to have a surplus of 3.68 billion USD. In particular, the domestic sector saw a deficit of 4.07 billion USD, while the FDI sector (including crude oil) saw a surplus of 7.75 billion USD.

Export turnover of goods steadily grew in Q4, reaching 80.05 billion USD with an increase of 16,36% (yoy) (Q3 export turnover rose by 11.22% (yoy)). Specifically, exports from FDI enterprises accounted for the largest proportion, which was 66.67 billion USD, with a climb of 43% (yoy) (adding up 83% of total turnover). Export from the domestic sector plunged by 49% (yoy), reaching 13.38 billion USD.

Total import turnover in Q4 was estimated to pick up 15.72% (yoy) to 76.37 billion USD (Q3 import turnover climbed by 2.26% (yoy)). Specifically, imports of the FDI sector went up by 63%, representing 77% of import turnover (that of Q4/2019 accounted for only 55%).

2020 witnessed a trade surplus of 19.95 billion USD, the highest level in the past 15 years thanks to soaring exports and slightly decreasing imports (surplus in the same period was 8.6 billion USD in 2019, 5.6 billion USD in 2018, and 2.7 billion USD in 2017). The domestic sector saw a deficit of 13.92 billion USD, a fall of 46.3% (yoy) (in 2019, the deficit was 25.91 billion USD, a marginally increase of 1,2% (yoy)). The FDI sector had a surplus of 33.87 billion USD, going down by 5.5% (in 2019, the surplus was 35.85 billion USD, moving upward by 9.26%).

Export turnover in 2020 was estimated at 282.65 billion USD, a rise of 7.44% compared to that of the previous year (in 2019, export turnover was 264.3 billion USD, increased by 8,4% (yoy)). Phones and



Source: GSO

components were estimated at 51.18 billion USD, dwindling by 0.4% from the previous year. Computers, electronic products, and components were estimated at 3.12 billion USD, surging by 24.1%; textiles and garments were 29.8 billion USD, dropping by 9.2%; footwear was going down by 8.3%, and so on. Rice exports hit 20.3 billion USD, soaring 11.2%. Seafood products slipped 1.5% to 8.41 billion USD. In general, the share of some key export products still belonged to the FDI sector. The export value of the FDI sector reached 202.9 billion USD, accounting for 72% of total exports, with an growth of 12%, higher than that of the previous year (in 2019, it represented 69% of total exports, with an increase of 3%). The export turnover of the domestic sector reached 79.76 billion USD, contributing 28% of the total turnover, with a rise of 3%, lower than the growth in 2019 (in 2019, it added up 31%, with an increase of 19%). The export market faced difficulties, so the average export price of many agricultural products decreased compared to the same period, pulling down the export turnover of most agricultural and aquatic products in 2020 below the level of the previous year: Vegetables and fruits was down by 13%; cashew nuts was down by 3%; coffee was down by 7.2%; pepper was down by 6.8%. Export turnover for rice reached only more than 3 billion USD, increased by 9.3% due to the rising demand for rice reserves from other countries around the world as a result of the pandemic.

Generally, in 2020, import turnover was estimated at 262.7 billion USD, going up by 3.23% compared to that of the previous year. Regarding the composition of imported goods in 2020, electronics, computers and components were estimated at 63.97 billion USD, picking up 24,6% compared to the previous year; machinery, equipment, tools, and other spare parts was 37.25 billion USD, climbing by 1.4%; phones and accessories grew by 13.9%; and so on.

In terms of import and export markets, in 2020, the United States was Vietnam's largest export market with a turnover of 77 billion USD, increased by 25.6% compared to the previous year. China remained the largest import market of Vietnam with a turnover of 84.18 billion USD, rising by 11.57%. The United States was Vietnam's largest trade surplus market, reporting a surplus of 63.36 billion USD with an climb of 34.76%. Vietnam had an export surplus of 20.3 billion USD with the EU. Trade deficit from China was 35.28 billion USD and from ASEAN was 6.9 billion USD.

The increasing trade surplus with the US led to this country's official decision to investigate Vietnam on currency manipulation at the meeting on December 16, 2020. On December 30, 2020, the US Department of Commerce concluded that Vietnamese tire exports would not be dumped and subject to a tariff of 22.03%. The US government is still investigating the import and use of wood in Vietnam because they believe that illegal timber use in exports to the US may affect US businesses and workers. Sanctions from the US may be imposed in the form of new import tariffs based on Vietnam's level of currency manipulation.

At the same time, Vietnam is in danger of becoming a temporary import and re-export market of China to circumvent US sanctions on Chinese exports. The reason is that the key exports to the US are computers, electronic products, and components and other machinery, equipment, tools, and spare parts (22.59 billion USD, increased by 103.5%). Meanwhile, Vietnam imports a variety of computers, electronic products, components and machines, equipment, tools, and spare parts from China (35.47 billion USD, increased by 31.4%). Therefore, all of the above statistics on the jump in imports from China and exports to the US of the same items (like electronic components) are more likely to result from temporary import for re-export or import for assembly to export instead of the expansion of domestic production. The government should have policies to tighten regulations on the origin of imported industrial inputs. Along with that, all the key export products of the domestic sector, such as fabrics, textiles, and footwear, declined due to shrinking export demand or consumption.

The proportion of FDI exports in total exports rose (accounting for 72%), while that of the domestic sector fell, implying that the foreign-invested sector is better at taking advantage of opportunities from FTAs than the domestic sector, as well as better adapting to the difficult economic situation caused by the pandemic.

Compared to the previous years, there has not been any substantial progress in diversifying trading markets. International trade remains highly dependent on the FDI sector. Low value added is mainly attributed to subcontracting and assembling or the heavy dependence on imported materials. Risks escalate when there is a high trade surplus with a large market (the US) with which Vietnam does not have an FTA.

On November 15, 2020, the RCEP agreement was signed between 15 members with the expectation to become the largest free-trade region in the world (with 2.2 billion consumers and representing about 30% of global GDP). Using a common set of rules of origin gives businesses, especially small and medium-sized domestic enterprises, more favorable conditions in exporting to member countries. Vietnam's textile and garment industry also benefits significantly from the rules of origin under this agreement because input materials are mainly imported from China. Increasing commercial competition in the domestic market is inevitable when the agreement comes into force.

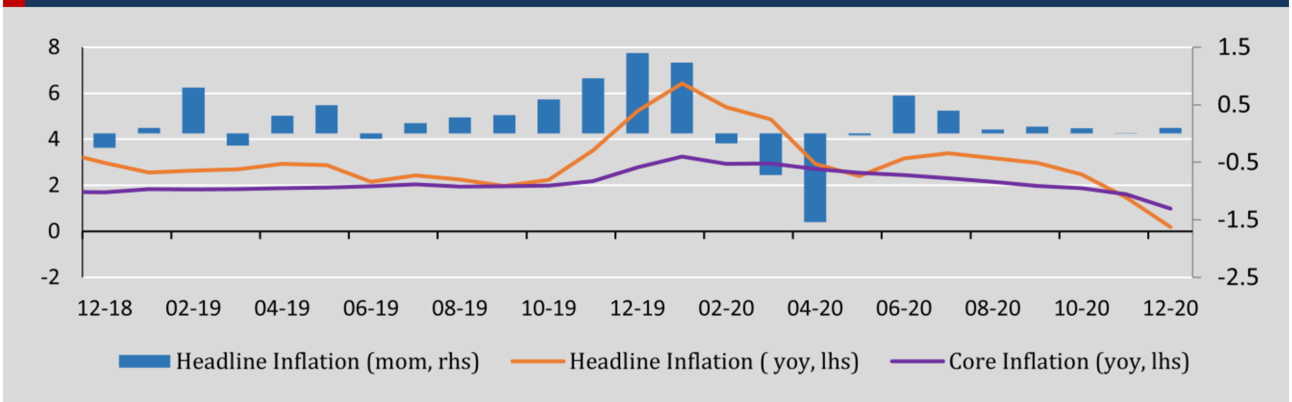
Average inflation rate in 2020 reached 2,31%, staying within the target range

CPI in December grew by 0.99% (yoy) and by 0.07% (qoq). The main reasons were (i) food and catering services expanded by 2.68% (yoy) as food prices went up by 6.07% (yoy); (ii) education rose by 3.8% (yoy) due to the implementation of the school fee increase roadmap for the new school year of 2020-2021; (iii) culture, entertainment, and tourism increased by 3.81% (yoy) due to year-end festivals and easing social distancing; and (iv) transportation goods fell by 11.68% (yoy), slightly higher than the previous months (decreased by 13.27% (yoy) in November and 13.49% (yoy) in October) due to the rise in gasoline prices and travel demand. Overall, inflation rate followed a downward trend in Q4 (inflation rate in October 2020 was 2.47%, in November was 1.48%, and in December was 0.19%) since the pandemic in Vietnam was effectively controlled, gasoline prices increased, and the African swine fever was well-handled.

The average CPI in 2020 climbed by 3.23% (yoy) mainly because: (i) food and foodstuff prices rose due to the increase in the demand for importing rice for stockpiling from other countries around the world under the influence of the COVID 19 epidemic and rising pork prices; (ii) drug and medical equipment prices moved upward; (iii) the price of transport goods dropped due to lower oil prices and social distancing order.

In Q1/2021, inflation rate may pick up slightly from Q4 compared to that of Q4/2020 because the Lunar New Year is approaching and African swine fever is better controlled, but there remain potential risks of new COVID-19 waves.

Inflation (%)



Source: GSO

Fiscal Policy

Budget revenue shrank due to COVID-19

According to the Ministry of Finance, the total state budget revenue in 2020 was estimated at over 1,507 trillion VND, equivalent to 98% of the plan (increased by 1,538 trillion VND according to Resolution No. 128/2020/QH14 on September 12, 2020, of the National Assembly). That the budget collection is behind the schedule of the budget estimates aligns with the economic cycle and is also an pro-cyclical automatic policy mechanism (does not place any additional burden on the economy that is already in difficult times but remove obstacles for businesses and people to cope with the COVID-19 pandemic). As of December 31, 2020, about 123.6 trillion VND of taxes, land rentals, fees, and charges have been extended, exempted, or deduced.

Total state budget expenditure in 2020 was estimated at 1,781.4 trillion VND, equivalent to 82.8% of the plan submitted to the National Assembly. A positive light in the management is the improvement in the public investment disbursement progress compared to the previous year. Investment and development spending was estimated at 82.8% of the plan.

State budget deficit is strictly controlled within the scope allowed by the National Assembly, equivalent to about 3.93% GDP. Although the Government is making efforts to increase public investment to promote economic growth in the context of global and domestic economic difficulties, we should refrain from expecting too much of public investment next year because of the increasing budget deficit, which has been a chronic problem in Vietnam for many years and may widen this year.

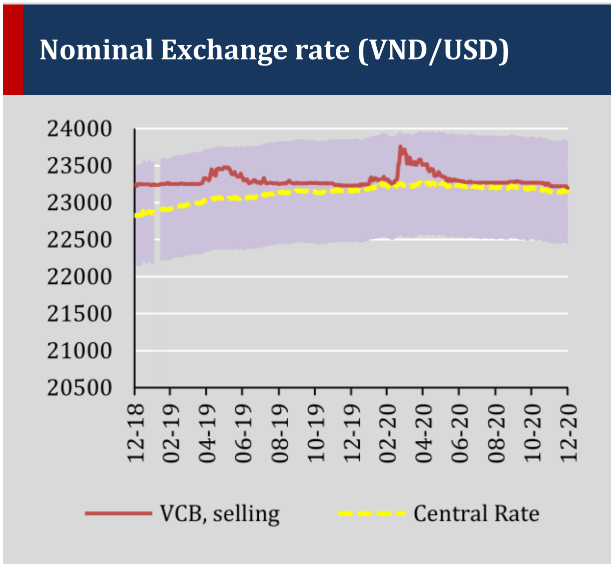
As of December 30, 2020, The Government has spent about 18.1 trillion VND on the prevention and control of the COVID-19 epidemic and supported nearly 13 million people; at the same time, it proposed to supply 36.6 thousand tons of national rice reserves to provide relief and hunger relief for the people in Central Vietnam to overcome the consequences of natural disasters.

Asset market – Money and Financial Markets

The VND/USD exchange rate at commercial banks dwindled during Q4/2020

The central rate has fallen during Q4/2020 to 23,131 VND/USD at the end of the quarter. The exchange rate at commercial banks also dropped slightly to 23,215 VND/USD. The reason was that the State Bank lowered the USD buying rate in November because the USD supply was replenished as a result of a high trade surplus in Q3.

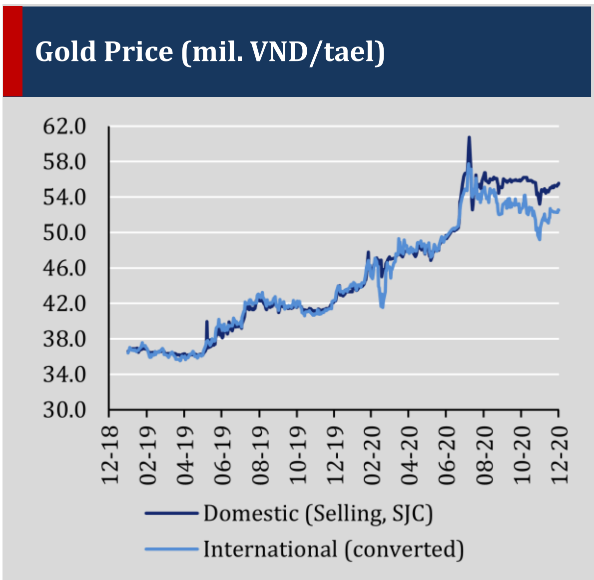
With an abundant supply of foreign currencies due to the high trade surplus (a surplus of 19.95 billion USD in 2020), the newly registered FDI capital did not plummet (dipped by only 6.87% compared to the previous year), and the realized FDI capital declined by only 2%, keeping the VND/USD exchange rate stable in the second half of 2020 and probably stay stable in the first months of 2021.



Source: SBV, VCB

The domestic gold price closely followed the fluctuation of the world gold price

Domestic and world gold prices fell in late November due to the expectations that the production of the COVID-19 vaccine would help the world and domestic economy recover, but gold prices went up again in December, ending the year at 55.6 million VND/quantity sold after a surge of 31.48% compared to the beginning of the year (in the same period in 2019, increased by only 9%) due to the outbreak of the epidemic in many countries at the end of Q4. In 2020, domestic and world gold prices peaked at the beginning of August, reaching 60.75 million VND/tael and 57.76 million VND/tael respectively (according to the

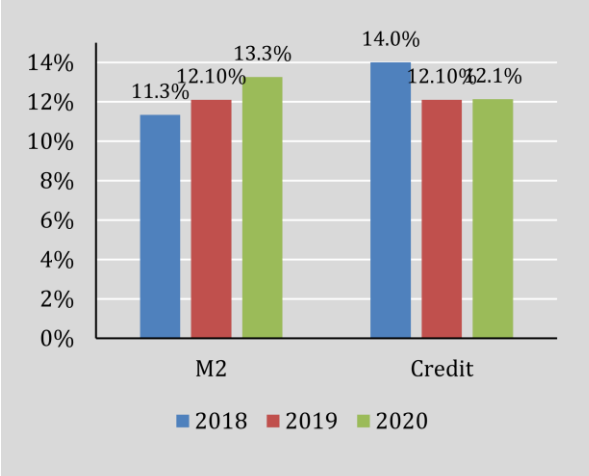


Source: SJC, www.gold.org

VND exchange rates on August 6-7, 2020). The main reason for the sharp upturn in the domestic gold price was the sudden outbreak of COVID-19 in early July in Da Nang, affecting the people's need to hoard assets.

In general, the domestic gold price is closely following the progress of the world gold price and is unstable due to the slowdown of economic growth. It is forecasted that domestic gold prices will remain high in Q1/2021 due too (i) gloomy economic growth; (ii) investors' withdrawal from risky assets; (iii) depreciation of major currencies.

Growth of M2 and credit, 2018 – 2020 (%)



Soruce: GSO

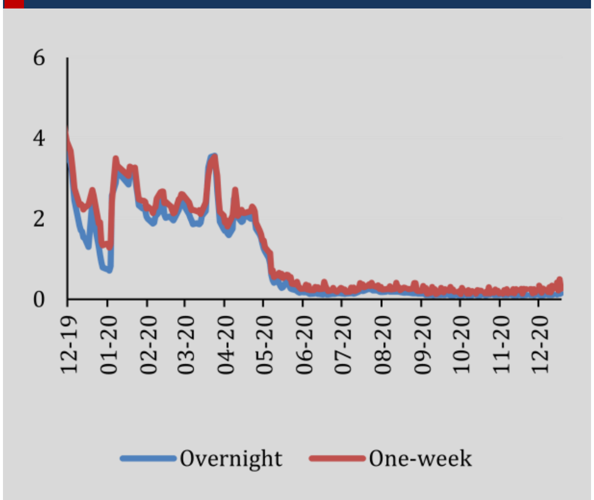
Capital and Money Market

Interbank interest rates decreased during the last days of 2020

In Q4/2020, the overnight and one-week interbank rates fluctuated moderately below the level of Q3/2020 and closely followed each other's movements as the State Bank cut the interest rate under Decision 1728/QD-NHNN on September 30, 2020. Interbank rates at the end of 2020 were 0.15% for overnight rates and 0.26% for one-week rates.

As of December 28, 2020, M2 money supply growth in 2020 was around 13.26% compared to the end of 2019, higher than that of 2019 (12.1%). Compared to the end of 2019, credit growth was 12.13%, the lowest rate in the last 6 years (2019: 12.1%; 2018: 14%; 2017: 18.2%; etc.). The COVID-19 pandemic affected the demand of individuals and businesses for loans.

Interbank Offered rate (%)



Source: SBV

In the context of economic difficulties, Vietnam's GDP in 2020 grew by only 2.91% (yoy), while money supply growth was 12.6% (yoy), which was a worrying sign. This suggests that: (i) part of credit growth resulted from rescheduling/debt-reversal for affected businesses that could not pay on time (according to the State Bank, about 355 trillion VND of debt was restructured); (ii) a large amount of money was absorbed through government bonds (in 2020, the State Treasury issued a number of bonds with a total value of about 219 trillion that was bought mainly by credit institutions); (iii) credit did not flow directly into production but primarily flowed into consumption channels of imported goods and asset transactions such as stocks and real estate. Although consumer prices are relatively stable, asset price bubbles (besides bad debt) pose a worrying risk as monetary policy is loosened. The manufacturing sector is not a major recipient of benefits from the expansionary monetary policy.

The bond market is dynamic

Regarding the bond market, the size of Government bond listing has reached over 1.35 million billion as of December 31, 2020, climbing 17.39% compared to 2019. In which, foreign investors net bought 3.95 trillion VND.

The corporate bond market thrived in the first eight months of the year. By November, the accumulated value of issued corporate bonds reached 392,527 billion VND and recorded a surge of 64.4% compared to the same period last year, in which the value of separately-issued bonds was 348,456 billion VND. The reason was that enterprises had actively issued bonds before Decree No. 81/2020/ND-CP on "Amending and supplementing a number of articles of Decree No. 163/2018/ND-CP dated 04 December 2018 regulations on issuing corporate bonds" officially came into effect from September 1, 2020. Specifically, corporate bonds issued in the domestic market are restricted from trading to less than 100 investors, excluding professional securities investors, within one year from the date of completion of the issuance except for cases under court decisions or inheritance in accordance with the law. After the time mentioned above, corporate bonds can be traded without limitation in terms of the number of investors unless the issuing company decides otherwise. Corporate bonds issued to the international market comply with regulations on transactions in the issuing market.

This Decree is issued to help consolidate the situation and minimize risks when investors participate and increase investment in the corporate bond market, and simultaneously to control the seemingly "hot" growth in order to avoid disrupting the stability of the bond market.

PROSPECTS FOR POLICY NOTES AND THE ECONOMY IN 2020

Due to the COVID-19 epidemic, the world's major economies were severely affected, and most of them had negative Q3 growth compared to the same period in 2019. The pandemic broke out again in the fourth quarter of 2020, causing obstacles for many industries in the world in the last months of 2020 and possibly in 2021. European economies are facing serious problems related to rising unemployment and shrinking production due to the reinstatement of the social distancing order. China's economy in Q3 showed a recovery, while other countries in the BRICS and ASEAN-5 recorded negative growth.

Vietnam's economy in 2020 posed a positive light in the region, with a growth of 2.91% (yoy), a positive growth that ranked among the highest compared to other countries in the region and the world. Factors that could support growth included good government control of the disease, expectations for economic prospects due to the ratification of the EU-Vietnam Free Trade Agreement (EVFTA) and Investment Protection Agreement (IPA); the acceleration of disbursement and construction of key public investment projects; waves of investment movement to disperse risks from US-China trade war and take advantage of investment incentives in Vietnam; a stable macroeconomic environment with moderate inflation, creating good conditions for the implementation of growth support policies.

However, Vietnam is also facing many risks and challenges due to the unstable world economic environment. The resurgence of COVID-19 in many countries, accompanied by lockdown measures, can extend the disruption of the supply chain in 2021, and geopolitical conflicts between large countries can cause an open economy like Vietnam to suffer. Besides, the vulnerability of the Vietnamese economy also comes from endogenous risks such as: the large fiscal imbalance; the slowdown in the speed and level of development investment, especially in infrastructure; the health of the banking-financial system which has been gradually strengthened but remained vulnerable; the heavy dependence of growth on the FDI sector and the lack of autonomy in technology and raw materials; the low labor quality; the inefficiency of public investment and the rapacity of the public apparatus; the delay of the SOE sequitization process; the unsupportive business and institutional environment.

Considering the positive and negative factors affecting the current Vietnamese economy, we make forecasts of growth under different scenarios of the epidemic situation. As long as the COVID-19 pandemic continues to be stably controlled in the country and the world economy begins to flourish due to the gradual removal of lockdown measures, we project that Vietnam's economy in 2021 can reach a growth rate of between 5.6 and 5.8%.

However, if the epidemic, especially with the new variant, has complicated developments in the country, disrupting domestic economic activities, 2021 growth may not reach the level of 2020.

Baseline Scenario (highly likely):

In this scenario, the epidemic does not spread domestically for most of the year, and domestic economic activity continues to function normally with a gradual return to the normal state of the global economy. In particular, the epidemic in many important world economic-financial centers may reappear locally on a small scale in some countries. Accordingly, the impact of COVID-19 on the agriculture, forestry, fishery, manufacturing, and processing industries and the service sector will not get more severe than in 2020. Economic growth for the whole year is expected at 5.6-5.8%.

Worst-case Scenario (less likely):

In this scenario, a domestic epidemic breaks out with a new variant of the COVID-19 virus in 2020, disrupting economic activities. Simultaneously, the epidemic in many important economic-financial centers have not improved substantially; although efforts to popularize vaccines have been made, the effect has not been achieved on a large scale. World travel has not yet recovered. As a result, accommodation and food services are not motivated to recover due to the lack of foreign tourists, while domestic demand for these services is also limited due to limited travel and activities caused by the pandemic. The business system, especially the private sector, began to show great hurt as its ability to withstand deteriorates. Public investment continues to be boosted to support aggregate demand. Economic growth for the whole year is forecasted at 1.8-2.0%.

We still lean toward the baseline scenario for Vietnam's economic growth. The Vietnamese economy is likely to grow at the rate of 5.6-5.8% throughout 2021. Note that both of the above scenarios assume the domestic health system can still withstand the domestic epidemic. If the pandemic's scale exceeds the health system's capacity, efforts to promote growth will be heavily affected, making it difficult to predict the consequences.

Policy recommendations

In 2020, the SBV has three times lowered its policy interest rate instruments. In addition, the 250 trillion VND credit support package is still being deployed by commercial banks. However, the policy space is no longer wide in 2021. This imposes limitations on the macroeconomic policies to support economic growth and social security. Due to limited fiscal resources after years of budget deficits, along with monetary policy strictly dependent on inflation and exchange rate targets, Vietnam cannot pursue macro-economic policies in a similar manner to other countries in the world, such as a large-scale easy monetary policy. In addition, the COVID-19 pandemic prevention and social security subsidies due to the impact of the pandemic are also putting great pressure on the budget balance. The top priority at this time is ensuring social security, stabilizing the macroeconomic environment, reducing the burden on the businesses that have to suspend operations, and supporting businesses that remain in operation.

Social security policies are still the top priority and need to be proceeded quickly and with the right people to prevent the people from falling into unnecessary tragedies. In particular, the policy implementation needs to focus on workers in the informal sector as this group accounts for a majority, is vulnerable, suffers the most, and has difficulties in accessing supportive policies. Meanwhile, the policies to support businesses also need to continue to be implemented with urgency, focus, right targets, and practicality and closely follow businesses' needs. The freezing/suspension and exemption/deduction of businesses' financial costs such as loan interest and land rent should continue to be implemented, and it is also necessary to consider cutting union fees to support businesses. For businesses that are not affected by the pandemic or even have an efficient transformation, the government should encourage credit and facilitate the institutional environment and sector policy.

In case there are policy ideas to support specific businesses, these policies should aim to stimulate demand and assist consumers in paying the costs of purchasing the products/services of these businesses instead of directly financing the company. From our perspectives, tax breaks/deduction (if any) should only be applied to VAT instead of CIT as CIT deduction only supports a small number of businesses that either are not affected or benefit from the impacts of the pandemic and does not help a majority of businesses that are facing difficulties. Hence, the CIT deduction is also likely to deepen the inequality within the business environment, adversely affecting the post-pandemic economic recovery.

Currently, the most worrying aspect is the ability to disburse the social relief packages due to ineffective enforcement networks and complicated and inaccessible administrative procedures. The redesign of the policy implementation plan is essential for the relief packages to be truly effective. We believe that the second relief package at this time is not necessary since as long as the first package has not been effectively disbursed, the second one is likely to cause additional burden on the budget instead of having positive impacts on the economy.

In terms of manufacturing, even when the pandemic is completely controlled in the country, many export-oriented manufacturing and services sectors may face long-term difficulties as long as the pandemic has not totally disappeared in the important economic-financial regions in the world. Therefore, accelerating public investment, especially key national projects, which have been approved and allocated capital for implementation in the remaining months of the year is a must to support economic growth. Dividing into multiple bidding packages and implementing them in different localities to create better diffusion can also be considered. At the same time, a reduction of at least 10% in the regular budget should be made decisively to devote resources to overcoming the consequences of the pandemic and to share with the people nationwide in the period of difficulties.

Monetary policies, particularly interest rate instruments in 2021, will be significantly less effective. In particular, it should be noted that the asset bubble is forming on the stock market and the real estate market. In fact, in 2020, property markets have seen impressive growth mainly because they are the parking for idle money of investors and households, which is understandable during such a period of crisis. However, the continuous lowering of deposit interest rates due to the decline in credit demand is pushing the flow of savings out of banks at a faster pace. Besides, when price increases in asset markets are large enough to create a wealth effect, the consumption of non-essential goods increases. This led to the spillover of price rise from the asset market to the consumer market, which is perceptible, albeit slow. This is also a manifestation of price increase when the easy monetary policy is pursued for a long enough time. This is a difficult time for monetary policies as a tightening comes back in the absence of fundamental improvement, which will create further difficulties for real sector.

In any situation, macroeconomic stabilization, particularly stabilizing inflation, interest rates, and exchange rates, is essential to prepare for the post-pandemic recovery period. Diversification of export/import markets also needs more attention to avoid heavy dependence on some major economic partners. In this time of difficulties, many shortcomings in implementing economic policies were also revealed, so efforts to improve administrative procedures and business environment should continue to be sustained. In particular, despite delays, Vietnam should gradually build a fiscal buffer to prevent shocks that are similar to the COVID-19 shock, as well as unexpected developments of this pandemic, in the coming years.

2021 is the first year of the new leadership term of the Party and the State, so this is the year that is expected to mark many further steps, new policies, and specific actions to promote socio-economic development. At the same time, internationally, the United States already has a new president who is expected to be more predictable and tends to act multilaterally rather than unilaterally, making the international environment less uncertain. However, the US-China conflict continued to develop, showing potential risks.

Therefore, the most useful policy in the current context is supply-side policies which aimed at reinforcing the economy's fundamental elements. Specifically, they are administrative reform policies and policies to improve the quality of the state management apparatus, especially local agencies, to improve the business environment for enterprises and citizens. Besides, the group of policies that still called for implementation over the past years but have not been implemented drastically and effectively, from education to finance-banking, from science-technology to infrastructure, from sector policy to state-owned enterprise reform, etc. need to continue to be pushed with a new spirit and new approach that give the market more respect, put the people at the center, and respect recent development trends.

Note: Long-term and structural policies will be discussed in other policy reports of VEPR

Abbreviations

ADB	Asian Development Bank
BoJ	Bank of Japan
BSC	BIDV Securities Company
MOT	Ministry of Finance
CEIC	CEIC Data
CNY	Chinese Yuan
EA	Euro area
ECB	European Central Bank
EIA	Energy Information Administration
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FAO	Food and Agriculture Organization of the United Nations
Fed	Federal Reserve
FRED	Federal Reserve Economic Data
GBP	Great British Pound
GDP	Gross Domestic Product
IFS	International Financial Statistics
IMF	International Monetary Fund
ADB	Asian Development Bank
JPY	Japanese Yen
Mom	month-on-month
NBS	National Bureau of Statistics of China
SBV	State Bank of Viet Nam
NMI	Non-Manufacturing Index
OECD	Organization for Economic Co-operation and Development
PMI	Purchasing Manager Index
Qoq	quarter-on-quarter
GSO	General Statistics Office
USD	The United State dollar
VCB	Viet Nam Bank of Foreign Trade
VEPR	Viet Nam Institute for Economic and Policy Research
VND	Viet Nam Dong
WB	World Bank
WTI	West Texas Intermediate
Yoy	year-on-year
ytd	year-to-date

Disclosure appendix

Author's Certification

The following author who are primarily responsible for this report, certify that the opinion on the subject or issues and/or any other views or forecasts expressed herein accurately reflect their personal views and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report: Nguyễn Đức Thành, Phạm Thế Anh, Hà Thị Dịu (VEPR Macroeconomic Research Team).

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Additional disclosures

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