

2019 Fiscal Overview

Improvements support more public spending in 2020

Vietnam's 2019 budget deficit falls to 3.4% of GDP (Figure 1) & debt lowest in six years

- Overall tax revenue was up 4% in 2019 and preliminary data show revenue from value-added tax (VAT) & corporate income tax increased by 10%, while revenue from personal income tax rose by 20% given the expanded tax base (Figure 2).
- Payment obligations by the government (mainly interest expenses) increased by 14% but total expenditure remained largely flat over the previous year as backlogs and tighter public disbursements limited government spending.
- Public debt to GDP fell to the lowest level in six years at 56.1% (Figure 3) due to the budget deficit growing slower than GDP.

Better numbers from 2019 should support more public spending in 2020

- Public projects in 2020 will likely focus on transportation infrastructure and benefit the construction sector and construction materials as the main suppliers to several government projects. Projects scheduled for launch in 2020 include the North-South Expressway and Long Thanh International Airport projects.
- The law on public investment that recently passed also supports our more positive outlook for public disbursements – and is expected to eliminate weakness in the system – while greater scrutiny of tax authorities should boost tax revenue to better support expenditures (recent examples include the VND821 billion from Coca Cola and VND917 billion from Heineken in additional taxes arising from the transfer pricing settlement).

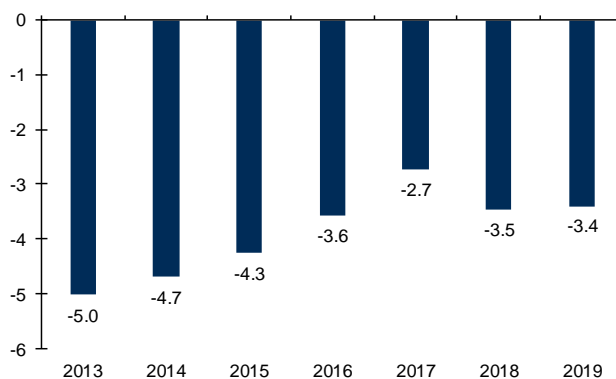
Little strain to the State budget from bond maturities in 2020–2021

- About 10.3% of the government's total domestic debt will come due between 2020–2021 (for the five-year maturities issued back in 2015–2016) according to the Ministry of Finance but several factors should mitigate any risk of liquidity strain:
 - 1) improved refinancing options following the extension of bond maturities to 15 years, 20 years and 30 years since 2017;
 - 2) payment capacity at 15%–16% of total budget revenue remains well below the international standard of 25%. Moody's recent downgrade in outlook should only apply to government-guaranteed debt obligations given that the credit action was focused more on the inconsistency in administrative coordination to pay contingent liabilities;
 - 3) new GDP calculations from 2020 should lower public debt to GDP and create more capacity for bond issuances to restructure government debt; &
 - 4) long-term bond yields at record lows (Figure 4) create favorable interest rate conditions to reduce the pressure on government borrowing costs.



Fig 1. Vietnam – Fiscal balance (% of GDP), 2013–2019

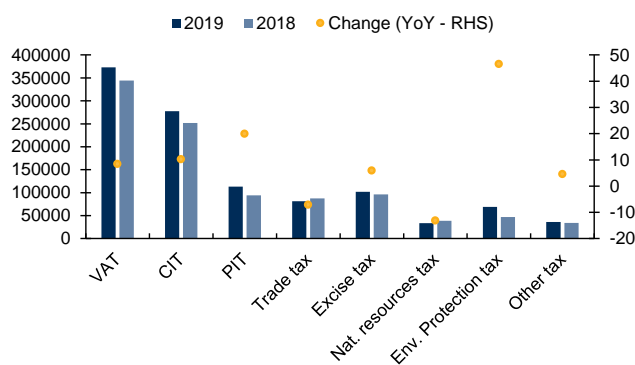
Vietnam’s budget deficit falls to 3.4% of GDP as total expenditures lag the growth in GDP



Source: Ministry of Finance, KB Securities Vietnam

Fig 2. Vietnam—Tax revenue breakdown (VND billion), 2019

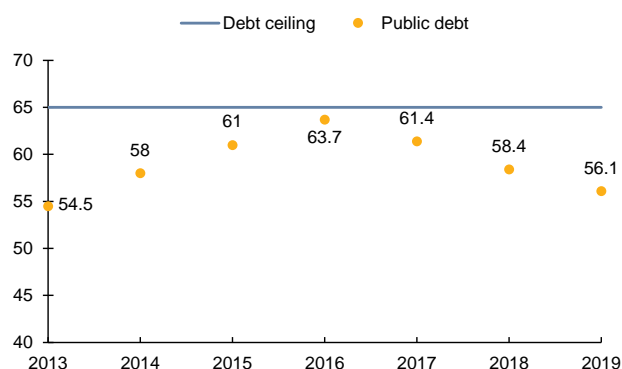
Improved tax administration by tax authorities led to 10% increase in VAT and corporate income taxes, while the expanded tax base boosted personal income tax by 20%



Source: Ministry of Finance, KB Securities Vietnam

Fig 3. Vietnam – Public debt (% of GDP), 2013–2019

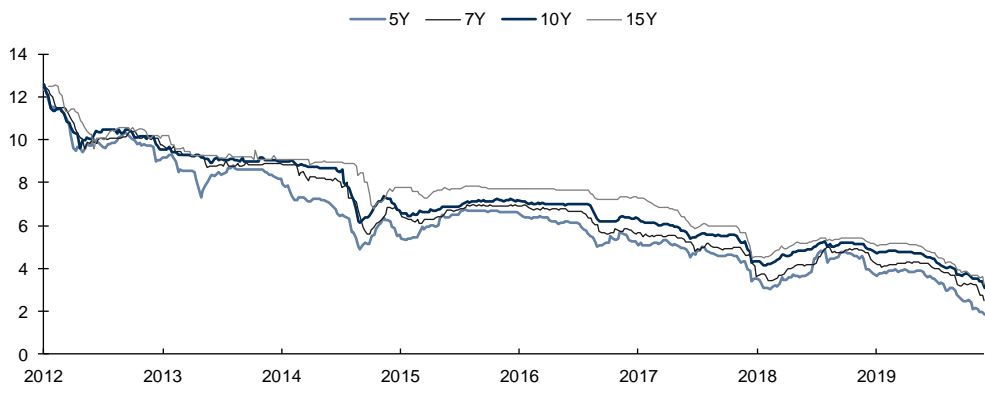
Public debt to GDP the lowest in six years at 56% and provides ample room for the government to restructure debt



Source: Ministry of Finance, KB Securities Vietnam



Fig 4. Vietnam - Government bond yields (% YTM), 2012-Jan 2020



Source: Ministry of Finance

KB SECURITIES VIETNAM RESEARCH

Head of Research – Nguyen Xuan Binh

binhnx@kbsec.com.vn

Macro/Strategy

Head of Macro & Strategy – Tran Duc Anh

anhtd@kbsec.com.vn

Macro Analyst – Thai Thi Viet Trinh

trinhtt@kbsec.com.vn

Market Strategist – Le Anh Tung

tungla@kbsec.com.vn

Equity (Hanoi)

Head of Equity Research (Hanoi) – Duong Duc Hieu

hieudd@kbsec.com.vn

Information Technology & Logistics Analyst – Nguyen Anh Tung

tungna@kbsec.com.vn

Property Analyst – Pham Hoang Bao Nga

ngaphb@kbsec.com.vn

Power & Construction Material Analyst – Le Thanh Cong

conglt@kbsec.com.vn

Financials Analyst – Nguyen Thi Thu Huyen

huyenntt@kbsec.com.vn

Equity (Ho Chi Minh)

Head of Equity Research (Ho Chi Minh) – Harrison Kim

harrison.kim@kbf.com

Consumer & Retailing Analyst – Dao Phuc Phuong Dung

dungdpp@kbsec.com.vn

Fisheries & Pharmaceuticals Analyst – Nguyen Thanh Danh

danhnt@kbsec.com.vn

Oil & Gas & Chemicals Analyst – Nguyen Vinh

vinhn@kbsec.com.vn

Research Marketing

Korea Marketing Analyst – Seon Yeong Shin

shin.sy@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.