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4Q21 Macro Outlook

Public investment is the main driver

KB Securities Vietnam's (KBSV) forecasts on Vietnam's economy in 2021 are as follows:

Vietnam's 2021 GDP growth is revised down to 2.5% (in the base case, the COVID-19 does not resurge, social distancing protocols are not tightened, and the vaccination programs in major cities are accelerated) from 5.8% previously announced, which reflects the impact of the fourth wave of the pandemic.

Headline CPI for the whole year may fall to 3.0% which is under the government's 4.0% inflation limit. This reflects the weakening domestic demand amid the prolonged pandemic, a slowdown and divergence in commodity price increases after continuous hikes from early year to the middle of 2Q, and a sharp fall in liveweight hog prices.

The State Bank is likely to keep the cautious and easing monetary policy in 4Q which has been applied since the first outbreak, while the risk of inflation in 2022 still exists. The average lending interest rate should be flat or go down slightly, while the deposit interest rate may move sideways. The USD/VND exchange rates are forecast to rise modestly given stable USD supplies.

Contents

| | |
|--|---------------|
| I. Vietnam market outlook in 2021 | 3 |
| <hr/> | |
| II. 9M21 macro highlights | 4 |
| <hr/> | |
| 1. GDP growth | 4 |
| 2. Inflation rate | 6 |
| 3. Interest rates | 7 |
| 4. Exchange rates | 8 |
| III. 2021F macro outlook | 10 |
| <hr/> | |
| 1. 2021F macro outlook | 10 |
| 2. 2021F inflation rate | 14 |
| 3. 2021F interest rates | 15 |
| 4. 2021F exchange rates | 16 |

I. Vietnam market outlook in 2021

The government's social distancing protocols to halt the fourth wave of COVID-19 exert a comprehensive influence on almost all sectors of the economy. Accordingly, 3Q GDP growth saw a sharp decline, leading to 9M21 GDP reaching the lowest level ever recorded. However, the economy is expected to grow again in 4Q given accelerated vaccination in major cities, controlled pandemic, and relaxed social distancing regulations.

The main growth driver in the last quarter of 2021 will be the government's expedited disbursement of public investment capital. Other favorable factors are the recoveries of export activities, FDI attraction, domestic consumption and production (although these could not fully recover to pre-pandemic levels due to the prolonged social distancing measures in 3Q).

Macro stability should continue to be prioritized and maintained in the coming period. KBSV believes that inflation in 2021 will be under the government's limit, although the pressure for 2022 will gradually appear, and USD/VND exchange rates may increase slightly within the allowable range due to the appreciating USD.

Table 1. Vietnam – 2021 macro targets

| KBSV forecast | | | | |
|--------------------------------|--------|--------|-----------|--------------|
| | Unit | 3Q21 | July 2021 | October 2021 |
| GDP growth | % YoY | 1.42 | 5.80 | 2.50 |
| Headline CPI | % YoY | 1.82 | 3.20 | 3.00 |
| Credit growth | % YTD | 7.17* | 12.00 | 10.00 |
| Policy rate (refinancing rate) | %/year | 4.00 | 4.00 | 4.00 |
| USD/VND exchange rate | VND | 22,768 | 23,012 | 23,000 |

Source: KB Securities Vietnam

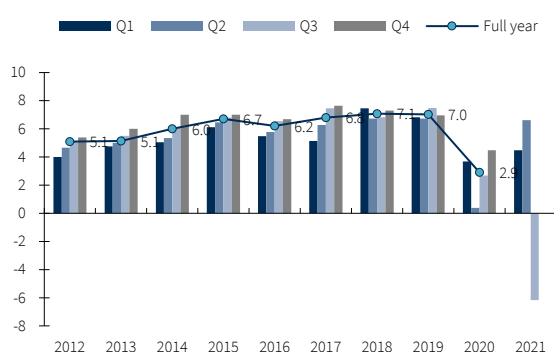
*Note: Data as of September 20, 2021

II. 9M21 macro highlights

1. GDP growth modestly gained 1.42%

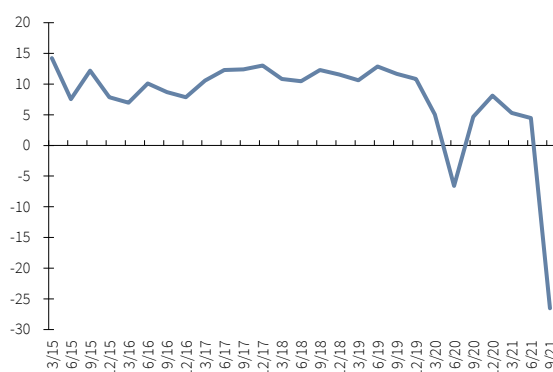
According to data from the General Statistics Office, GDP growth in the first nine months of the year was estimated to increase by 1.42% YoY, the lowest growth rate since the office started recording the figure. GDP dropped by 6.17% YoY in 3Q alone, showing the profound impacts of the fourth pandemic wave on many sectors such as agriculture, domestic consumption and import-export activities.

Fig 1. Vietnam – Quarterly GDP growth (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 2. Vietnam – Retailing & service sales growth (%)



Source: General Statistics Office, KB Securities Vietnam

From the demand side, the fourth COVID wave has a strong impact on domestic consumption and realized investment capital of the whole society.

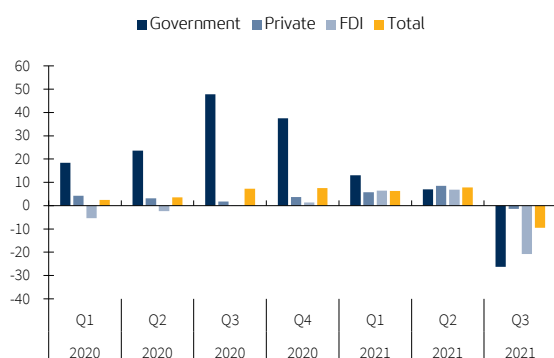
Consumption growth was negatively affected by prolonged and strict social distancing measures

In the first nine months of the year, consumption increased by 1.6% YoY, of which total retail sales of goods and services continued to go down to VND915.7 trillion in 3Q (down 22.24% QoQ and 28.3% YoY) due to prolonged and strict social distancing. Retailing was hit the hardest (88%), followed by hospitality and catering services (6%).

Capital investment of the whole society decreased significantly

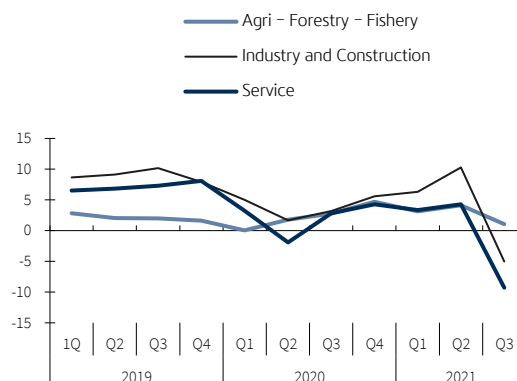
9M21 total investment capital reached VND1,868.5 billion (+0.4% YoY), mainly contributed by the private sector (+3.9% YoY – a sharp decrease vs pre-pandemic levels), while the other two sectors showed obvious signs of decline, namely the state sector (-4.7% YoY) and FDI (-3.4% YoY). Thus, after growing strongly in 2020 by 30% YoY on average per quarter, public investment disbursement slowed down in 2021 (only reached VND103.8 trillion in 3Q, down 20.6% YoY) owing to social distancing measures.

Fig 3. Vietnam – Total investment capital (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 4. Vietnam – Sector GDP growth (%)



Source: General Statistics Office, KB Securities Vietnam

From the supply side, the industrial-construction and service sector are all negatively affected by the pandemic.

The industrial and construction sector saw a negative growth in 3Q induced by the COVID-19

9M21 GDP growth of the industrial and construction sector rose 3.57% YoY (up 5.0% YoY in 3Q), mainly supported by the manufacturing industry (+6.05% YoY, adding 1.53 percentage points to the overall increase of GDP).

9M IIP increased 4.1% YoY (down 4.4% YoY in 3Q) and was diverged among regions, depending on the level of Coronavirus impacts. Large processing and manufacturing zones in the North still posted a two-digit growth, while many factories in the South had to closed or apply “three-on-spot” production strategy, leading to lower output.

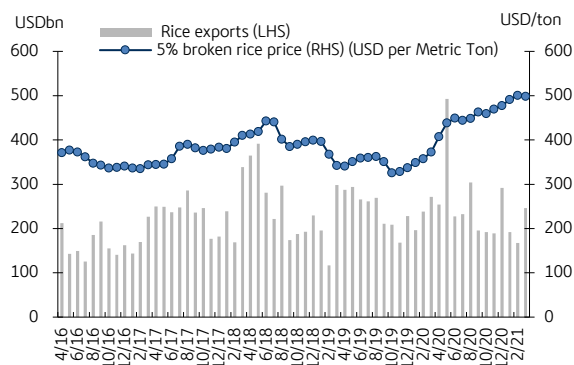
The service sector was severely affected by the pandemic

GDP growth of the service sector in the first nine months decreased 0.69% YoY (down 9.3% YoY in 3Q, reaching historic lows). The decline was attributable to the downward in the growth of wholesale and retail (-3.1% YoY), hospitality and catering (-23.2% YoY), and transportation and warehousing (-7.8% YoY), which pulled down the overall growth of the service sector and the economy. Meanwhile, finance, banking and insurance grew strongly (+8.4% YoY) thanks to the positive development of investment channels.

The agriculture, forestry and fishery sector became the backbone of the economy when industrial, construction and service sectors all dropped sharply

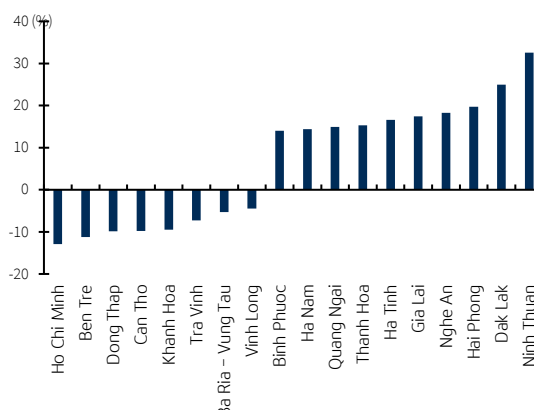
Agriculture, forestry and fishery GDP gained 2.74% YoY (up 1.04% YoY in 3Q), which shows the boosting role of the economy when the supply chain of production – processing – consumption of agricultural, forestry and fishery products was partly affected by the global pandemic. The prices of Vietnam rice 5% broken dropped sharply to USD385/ton, reaching 1.5-year lows, but the export volume of rice remained stable at 1,518 million tons (+3.4% YoY), and rice export value reached USD753 million (+3.1% YoY). In contrast, export turnover of wood & wood products and fishery products went down 13% YoY and 12.7% YoY respectively in 3Q because timber and fishery exporters concentrated in the Southern region were hurt by social distancing regulations (only 30-40% of enterprises can maintain production chains).

Fig 5. Vietnam – Rice export prices and turnover



Source: Vietnam Customs, KB Securities Vietnam

Fig 6. Vietnam – IIP across the regions (%)



Source: General Statistics Office, KB Securities Vietnam

2. Inflation remained low

9M21 inflation stayed low

Headline CPI in the first nine months of the year gained 1.82% YoY, the lowest level in the past five years and safe compared to the target of less than 4% set by the government in Resolution 01/NQ-CP at the beginning of the year. Headline inflation rate rose 2.51% in 3Q, slightly down from 2.67% in 2Q. However, the increase in CPI tends to be stronger as the world consumption demand recovers quickly thanks to accelerated vaccine rollout, while the broken supply has not yet recovered.

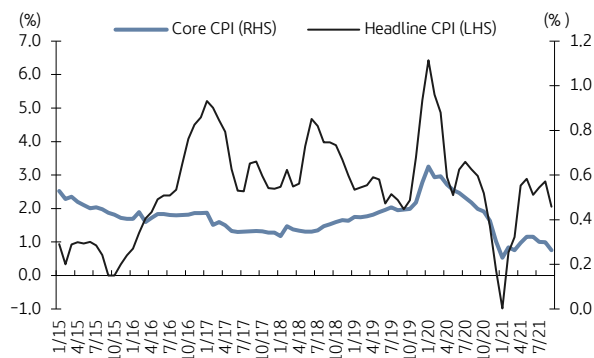
The trend of core inflation is similar to headline inflation as the average core CPI increased by 0.88% YoY.

Pump and gas prices have the strongest influence on CPI in the first nine months of the year

Main factors affecting 9M21 CPI include:

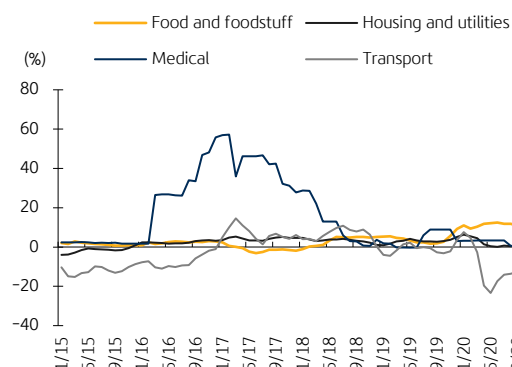
- Food prices decreased 0.29% YoY, causing the headline CPI to fall 0.13 percentage points.
- The government offered support packages for people and producers facing difficulties amid the pandemic. For example, Electricity of Vietnam (EVN) reduced the average price of electricity for the first 9 months of 2021 by 0.99% over the same period in 2020, lowering headline CPI by 0.03 percentage points.
- Domestic pump prices rose 24.8% YoY, causing headline CPI to gain 0.89 percentage points.
- Gas prices increased 21.7%, raising headline CPI 0.32 percentage points.
- The prices of educational services rose 3.76% YoY after the tuition fee increased for the new school year 2020–2021 according to the roadmap of Decree No. 86/2015/ND-CP, making CPI go up 0.2 percentage points.

Fig 7. Vietnam – Core inflation (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 8. Vietnam – CPI of the main sectors (%)



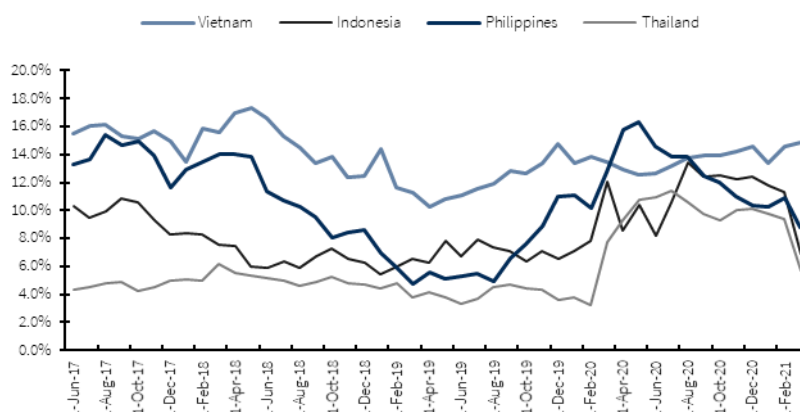
Source: General Statistics Office, KB Securities Vietnam

3. Interbank interest rates plunged while deposit rates were stable

The easing monetary policy was maintained to support the economy

The State Bank has maintained prudent and easing monetary policy since the Coronavirus outbreak. The bank's support policies focused on three times of lowering the policy rate in 2020. The decreased amount is quite small compared to other countries in the region and mainly financed by commercial banks (State Bank announced the Circular No. Circular 14/2021 amending Circular 01 on debt structuring, debt rescheduling, interest and fee exemption and reduction for customers affected by the pandemic, in addition to requiring commercial banks to keep lowering lending rates). Meanwhile, the State Bank expanded credit room for commercial banks in 3Q, but the new credit cap is lower than every year, which made M2 growth stable and tend to go down slightly.

Fig 9. Regional countries – M2 growth (% YoY)



Source: Bloomberg, KB Securities Vietnam

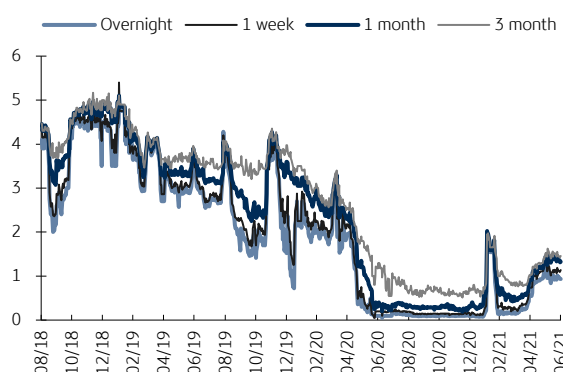
Liquidity was abundant, and interbank interest rates strongly fell

3Q interbank interest rates plummeted with overnight, one-week and one-month rates down 38 bps, 46 bps and 30 bps MoM respectively. This reflects abundant liquidity right from the beginning of 3Q, partly because the State Bank had bought six-month USD from early 2021 and injected the amount into the system in July and August.

Deposit rates are stably low

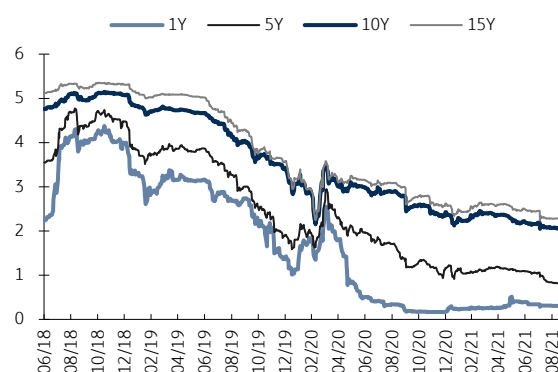
3Q deposit interest rates tended to move sideways and slightly gain for short terms (under 12 months) but decreased for long terms (13 months). However, the fluctuation range was relatively narrow (<0.4%), showing that deposit interest rates fluctuated stably and remained at a low level.

Fig 10. Vietnam – Interbank interest rates (%)



Source: Bloomberg, KB Securities Vietnam

Fig 11. Vietnam – Government bond yields (%)



Source: Bloomberg, KB Securities Vietnam

4. The gap between interbank USD/VND exchange rate and unofficial rate expanded

Interbank USD/VND exchange rate plummeted

Interbank USD/VND exchange rate has dropped dramatically since August when the State Bank of Vietnam (SBV) adjusted down the rates for spot purchases. This happened after the US and Vietnam reached an agreement where Vietnam would not intentionally interfere into the market to depreciate VND. Besides, USD supply remained abundant thanks to the rebound of remittances, FDI and trade surplus in September. For the whole quarter, the USD/VND rates decreased by 1.04% to VND22,768 from VND23,008.

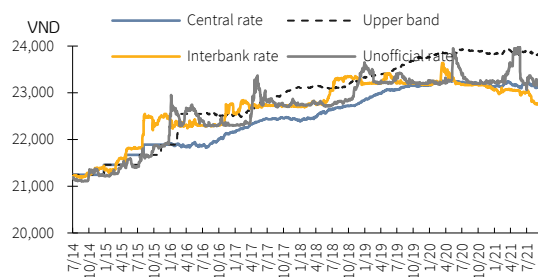
Unofficial rates decreased due to the gap between domestic and international gold prices and the restricted demand for USD trading following prolonged social distancing

Unofficial rates remained or slightly decreased in 3Q in line with the downtrend of the interbank rates, coming from: (1) The gap between domestic and international gold prices narrowed down (the gap remained at VND7 million/tael, a sharp decrease from VND9 million/tael in mid-August); (2) Restricted demand for USD trading in the wake of prolonged social distancing. USD/VND unofficial rates dropped by 0.8% to VND23,150 from 23,340 by the end of the third quarter.

NEER and REER of VND increased, following USD appreciation

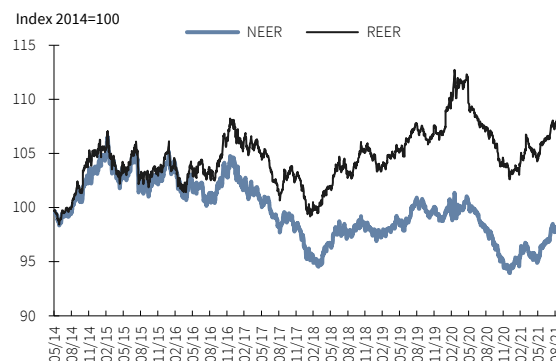
The NEER and REER of VND increased in 3Q following stronger USD before and after the FOMC meeting when the Fed signaled that it would likely begin reducing monthly asset purchases as soon as November (provided that the economy would recover as expected) and the Dot plot showed that many Fed officials would be inclined to raise interest rates as soon as 2022 (9/18 vs. 7/18 at the meeting in June). However, the NEER and REER of VND remain low and are currently not the factors that put pressure on VND devaluation.

Fig 12. Vietnam – USD/VND exchange rates (VND)



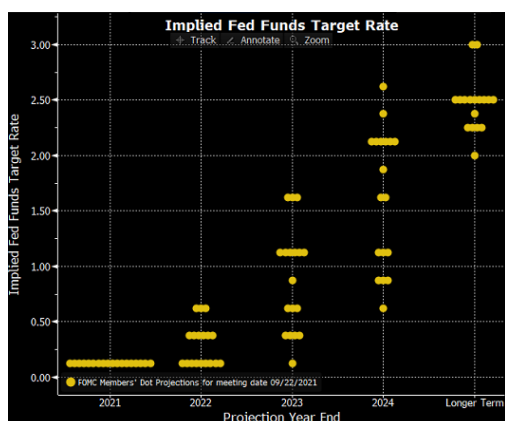
Source: Bloomberg, KB Securities Vietnam

Fig 13. Vietnam – NEER and REER (points)



Source: Bloomberg, KB Securities Vietnam

Fig 14. The Fed – Dot plot



Source: Bloomberg, KB Securities Vietnam

The SBV revised down the buying price of USD sharply and changed from forward trading into spot purchases

On August 11, the SBV announced a sharp reduction in the spot purchase prices of USD from VND22,975/USD to VND22,750/USD. We assess this move comes from two main reasons:

- Lowering the buying rate of USD is consistent with the exchange rate movements as well as USD supply-demand in the market.
- After Vietnam and the US made positive progress in "currency manipulation", the SBV will be likely to actively return to using spot purchases to have immediate and effective impacts on the currency market, such as stabilizing exchange rates and interbank interest rates, supporting liquidity.

III. 2021F Macro outlook

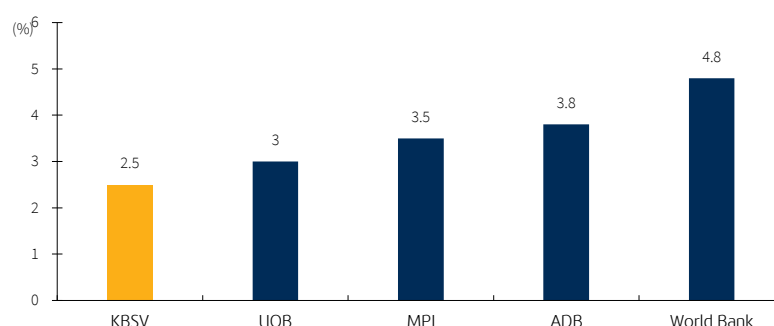
1. 2021F GDP growth

2021F growth is 2.5%

We revised our 2021F growth down to 2.5% from 5.8% (in July 2021 report), reflecting the ongoing impact of the fourth wave of the Coronavirus where the Government had to impose stricter social distancing measures.

Along with that, GDP growth rate is projected at 5.7% in 4Q, the lowest level of the fourth quarter since 2013. Accelerating the social investment disbursement is considered the main driver of growth promotion, followed by the recovery of exports, FDI inflows, domestic production and consumption. However, GDP growth rate could not recover to pre-pandemic levels due to the extended social distancing rules in 3Q, in addition, these regulations will still be applied to a certain extent in major cities under Directive No. 15.

Fig 15. Vietnam – 2021F GDP growth (%)

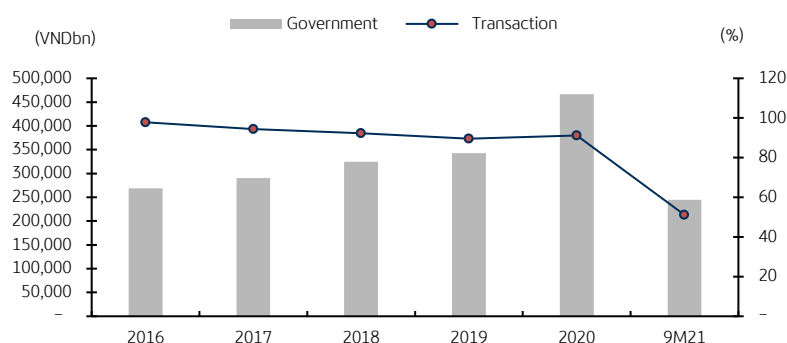


Source: International Monetary Fund, World Bank, Asian Development Bank, KB Securities Vietnam

Public investment should be the major driver of economic growth in 4Q

9M21 public investment disbursement reached VND276.3 trillion (-0.8% YoY), delivering 57.3% of the target set by the Government. We expect the public disbursement will be accelerated for the following reasons: (1) Exports and domestic consumption, the two main drivers of economic growth, have slowed down due to the pandemic. In that context, promoting public investment is the fastest and most feasible way to boost economic recovery. According to the General Statistics Office, if the public investment increased by 1% YoY, GDP growth rate would rise 0.058%; (2) The relaxation of social distancing measures would facilitate commuting and promote backlog projects.

Fig 26. Vietnam – Public investment disbursement (VNDbn)



Source: General Statistics Office of Vietnam, KB Securities Vietnam

Exports continue to maintain growth in 4Q

Vietnam's 9M21 exports reached USD240,524 billion (+18.8% YoY). The bright spot of the import-export picture is that Vietnam's export turnover has surpassed import turnover since August, after months of deficit. Data from General Department of Customs showed that most of the traditional exports to major trading partners recorded strong growth over the same period in 2020 (Figure 18). The driving forces of Vietnam's export growth in 4Q include:

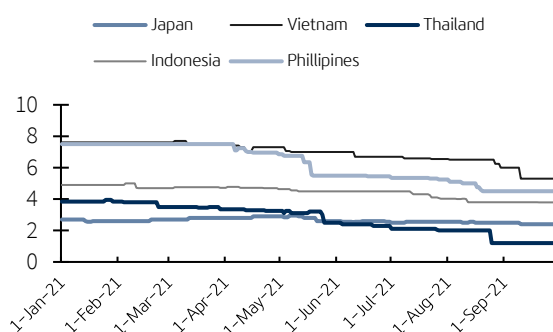
- The immunization program was speeded up, the demand for imported goods and services increased thanks to the reopening of major economies.
- Effective free trade agreements (FTAs) such as CPTPP, EVFTA, UKFTA, RCEP will allow exporting companies of Vietnam to take advantage of reduced tariffs.
- The price of Vietnam's export commodities, especially major ones like iron and steel, Agro-forestry and fishery products, rice improved, leading to export growth.
- The manufacturing sector revived thanks to eased social distancing strictions after the pandemic was under control.

Table 2. EVFTA and CPTPP – Roadmap for tariff elimination

| | Products | Current tariff | Tariff cut schedule |
|-------|-----------|-----------------------------------|--|
| EVFTA | Footwear | 8% | 0 – 8Y |
| | Textile | 12% | 0 – 6Y |
| | Fisheries | 8% (catfish) & 20% (shrimp) | 4Y (catfish); Immediate (shrimps) |
| | Coffee | 0% (unroasted); 7.5% (roasted) | Immediate |
| | Timber | 0% (interior); 7% (wooden planks) | 6Y |
| CTTPP | Coffee | | Immediate except for Mexico (5-10Y) |
| | Textile | | 0 – 4Y (Canada), Immediate (Japan), 16Y (Mexico) |
| | Timber | | Immediate except for Japan (15Y) |
| | Fisheries | | Immediate (Canada, Japan), 3Y (Mexico) |
| | Footwear | | Immediate (Canada), 0-16Y (Japan) |

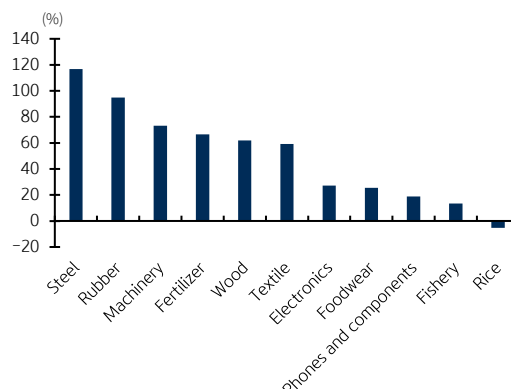
Source: KB Securities Vietnam

Fig 17. ASEAN 4 – 2021F economic growth (%)



Source: Bloomberg, KB Securities Vietnam

Fig 18. Vietnam – 9M21 export growth (%)



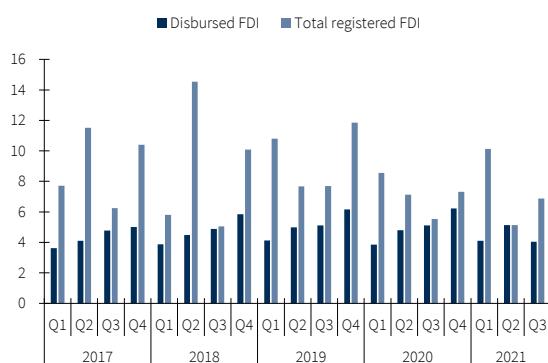
Source: Vietnam Customs, KB Securities Vietnam

FDI inflows should return after the pandemic is better under control

Although the fourth wave made the short-term outlook for the business activities in Vietnam less optimistic, we believe it will be better in 4Q with social distancing eased or lifted thanks to better control of the pandemic.

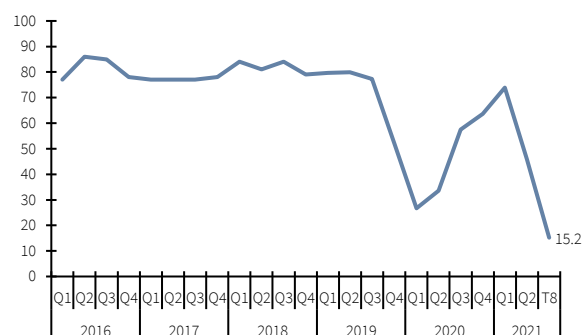
FDI disbursement hit USD4,040 million (-21.4% QoQ, -20.9% YoY) in the third quarter, reflecting a big drop in business confidence index (BCI), which was just 15.2 in August. This is the lowest level over the last 10 years. However, on the bright side, although 20% of European FDI enterprises temporarily transferred part of their production needs/orders to other countries, none have left Vietnam yet, according to European Business Association in Vietnam. Besides, the Ministry of Planning and Investment said newly registered FDI still expanded 20.6% YoY, showing the profound impact of COVID-19 on FDI inflows. Therefore, once the pandemic is under control, foreign investors' trust and confidence will be reinforced because Vietnam remains an attractive destination, helped by favorable conditions coming from the effective FTAs, convenient geographical location, youthful population structure, support policies of the Government.

Fig 19. Vietnam – 9M21 FDI (USDbn)



Source: Bloomberg, KB Securities Vietnam

Fig 20. Vietnam – BCI (points)



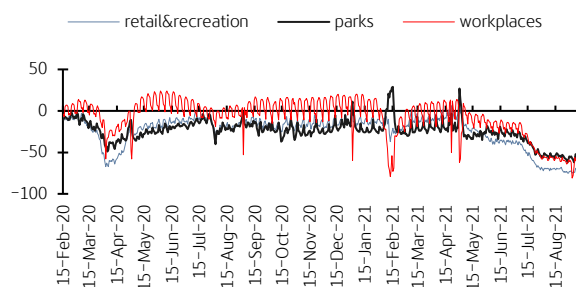
Source: EuroCham, KB Securities Vietnam

Domestic production and consumption may recover slowly due to the long-term and far-reaching impacts of the pandemic

Domestic production and consumption plummeted during the previous social distancing periods (the first starting April 2020, the second starting July 2020, and the third starting February 2021), but rebounded strongly after that (Figure 22, 23), reflecting the rehabilitation of Vietnam economy. Therefore, we believe that current scenario is no different despite slower recovery of the economy worsened by this prolonged and far-reaching lockdown.

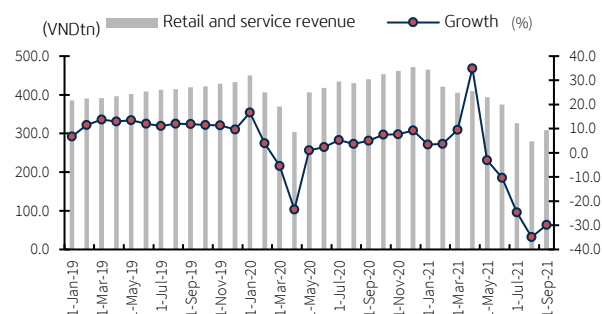
After two months under Directive No. 16, the index of industrial production (IIP) decreased from 9.3% in June to -7.4% in August and 4.1% in September. The purchasing managers' index (PMI) declined from 44.6 points in June to 40.5 points in August and 40.2 points in September. The total retail sales also dropped from VND374.7 trillion to VND279.8 trillion in August and VND308.8 trillion in September. Notably, the IHS Markit survey revealed the fastest increase in backlogs ever due to the decrease in both production and staff numbers at record highs and chronic disruption of supply chain. However, there have been some positive signals when the IIP and total retail sales recovered in September (Figure 22-23), domestic routes were gradually reopened, the Google mobility index inched up from the late September low (Figure 21).

Fig 21. Vietnam – Mobility to retail areas (%)



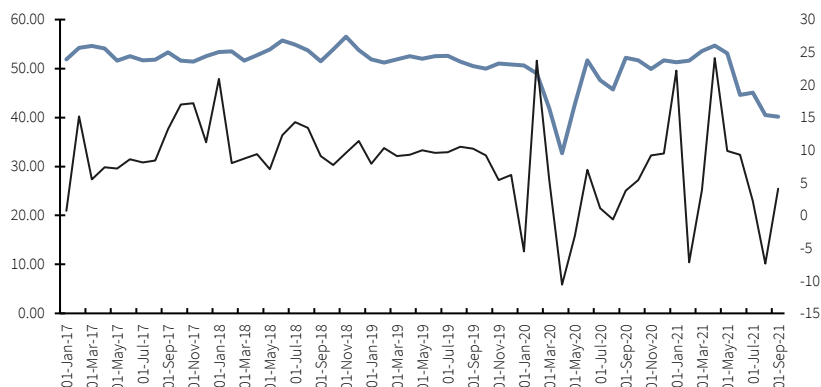
Source: Google, KB Securities Vietnam

Fig 22. Vietnam – Retail and service sales (VNDtn)



Source: Fiinpro, KB Securities Vietnam

Fig 23. Vietnam – IIP & PMI (points)

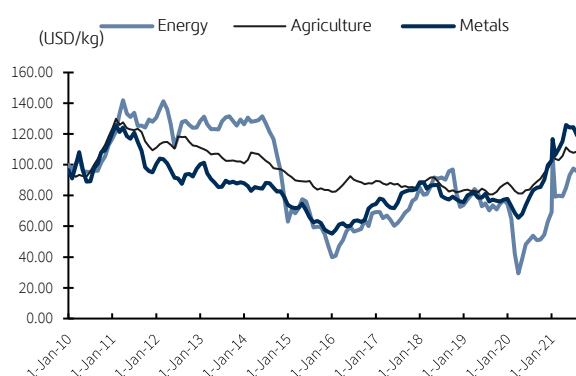


Source: General Statistics Office of Vietnam, HIS Markit, KB Securities Vietnam

2. 2021F inflation rate

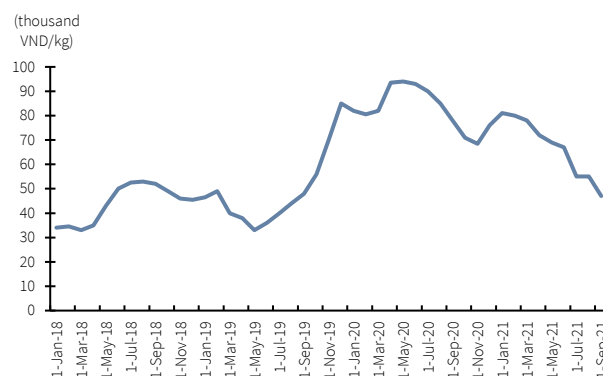
We lowered our 2021F inflation rate to 3% from 3.2% (in 2Q report), reflecting weak domestic demand in 3Q due to the Coronavirus as we mentioned above. The uptrend of commodity prices slowed down and diverged after a strong increase early this year to mid-2Q. Meanwhile, liveweight hog prices also continued to fall deeply.

Fig 24. Vietnam – Commodity price movements (USD/kg)



Source: World Bank, KB Securities Vietnam

Fig 25. Vietnam – Liveweight hog prices (thousand VND/kg)



Source: KB Securities Vietnam

Commodity prices saw divergent movements, especially in the energy sector where prices increased and remained high

Commodity prices recovered significantly from mid-2020 (Figure 24) until mid-2Q this year with the main driving force coming from China's push to import energy, metals as a result of increased investment in infrastructure and agricultural commodities to ensure food security. Since then, the upward momentum has shown signs of slowing down and moving sideways, only the prices of energy products like oil, gas, coal increased at the end of the third quarter due to the energy crunch in the UK and China.

Pork prices fell sharply

Liveweight hog prices dropped to the lowest level of around VND43,000 – 48,000/kg in the Northern region over the last two years, from the peak of 94,000 VND/kg more than a year ago. This partially comes from the weak demand amid the pandemic that made gathering activities, catering services and tourism restricted. Besides, the increase in the export supply while China was struggling against the pork crisis where pork production increased by 35.9% YoY also led to the decrease in pork prices. With a high figure recorded over the same period last year, even if pork prices recover in 4Q, the impact on CPI will be negligible.

2021F inflation rate is expected to be at 3.0%

We assess that the inflation can be under control in the rest of 2021 because 9M inflation rates remained relatively low. However, the inflation risks are obvious in 2022 when the prices of some commodities, especially energy products, are increasing considerably compared to the low figures recorded early this year. Meanwhile, the prices of pork and domestic products may also bounce back when the domestic demand for spending and consumption increases after the lockdown is lifted.

Table 3. Vietnam – 2021F CPI on average

| | Groups | Weight (%) | +/- (% YoY) | Contribution to overall CPI (%) |
|----|--|------------|-------------|---------------------------------|
| 1 | Food and foodstuff | | | |
| | Grains | 4.46 | 5.5 | 0.2 |
| | Foodstuff | 22.6 | 2.5 | 0.6 |
| | Outdoor eating | 9.06 | 3.5 | 0.3 |
| 2 | Beverages and tobacco | 3.59 | 1.5 | 0.1 |
| 3 | Clothing and footwear | 6.37 | 1 | 0.1 |
| 4 | Housing, water, electricity, gas and other fuels | 15.73 | 3 | 0.5 |
| 5 | Furniture, household equipment and maintenance | 7.31 | 1.5 | 0.1 |
| 6 | Health | 5.04 | 3.5 | 0.2 |
| 7 | Transport | 9.37 | 7 | 0.7 |
| 8 | Communication | 2.89 | -0.2 | (0.0) |
| 9 | Education | 5.99 | 4 | 0.2 |
| 10 | Entertainment | 4.29 | 1 | 0.0 |
| 11 | Miscellaneous goods and services | 3.3 | 2.5 | 0.1 |
| | Total | | | 3.0 |

Source: KB Securities Vietnam

*The weights for the 2021 CPI changed. However, we did not receive official information from the General Statistics Office, so we still used the weights for the period 2016–2020

3. 2021F interest rates

Prudent and expansionary monetary policy should be maintained

The expansionary monetary policy of the SBV throughout the period since the Coronavirus outbreak should be maintained in 4Q in the wake of potential inflation risks in 2022 although 2021F inflation rate may be below the Government's target at 4% as we mentioned earlier. To be more specific, while the SBV lowered the operating interest rates three times during 2020 to reduce capital costs so that commercial banks can lower lending rates and support businesses, it did not adjust the operating rates this year. Despite that, the SBV recently announced the return to spot USD purchases and stopped forward trading to have immediate and effective impacts on the currency market, including exchange rates and interbank interest rates stability, liquidity support.

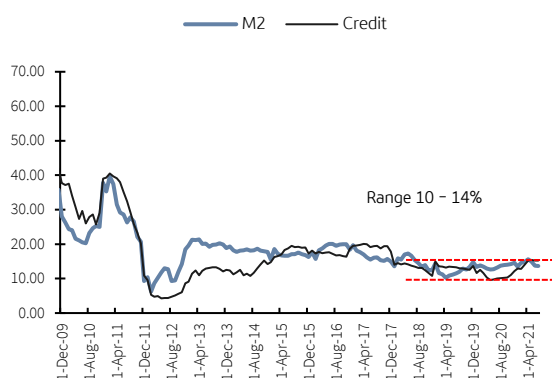
Deposit interest rates should move sideways in 4Q

We assess that deposit interest rates, which are currently at low levels, will likely move sideways in 4Q in the wake of potential inflation risks in the next few quarters and prudent support policies. In fact, the current rates caused a significant amount of money to be poured into other investment channels like real estate, securities. The General Statistics Office of Vietnam said the deposit of credit institutions in 9M21 only increased by 4.28% YTD vs. 7.48% YTD in the same period last year.

Credit growth will be at 10% for the whole year and lending rates will move sideways or slightly decrease

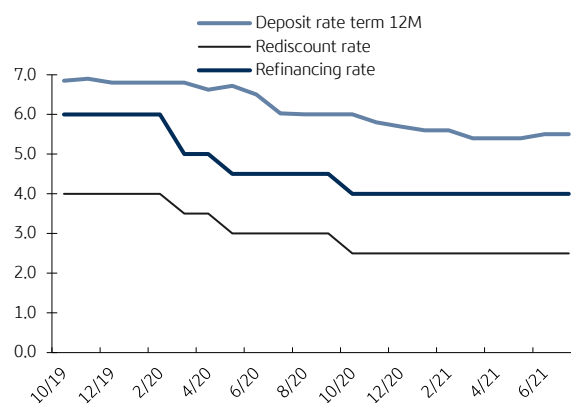
We assess that credit growth will reach 10% for the whole year because credit demand, although forecast to recover in the peak season of 4Q, will not rebound as strongly as in previous years due to the long-term spillover effects of recent social distancing period. Credit growth rate increased 5.47% by the end of June 2021, but slowed down in 3Q, causing the first nine months' growth to increase only 7.17%. Facing weak credit demand, banks lowered loan rates after the SBV recently issued Circular 14/2021/TT-NHNN amending Circular 01/2020/TT-NHNN on debt structure and extension, interest rates and charges exemption or reduction for clients affected by COVID-19. However, the lending rates will be unlikely to decrease significantly as banks also need to maintain high net interest income in correspondence with current high net interest margin, to have room for provisions as bad debts caused by social distancing may surge in the coming time.

Fig 26. Vietnam – M2 and credit growth (%)



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 27. Vietnam – Deposit and operating interest rates (%)



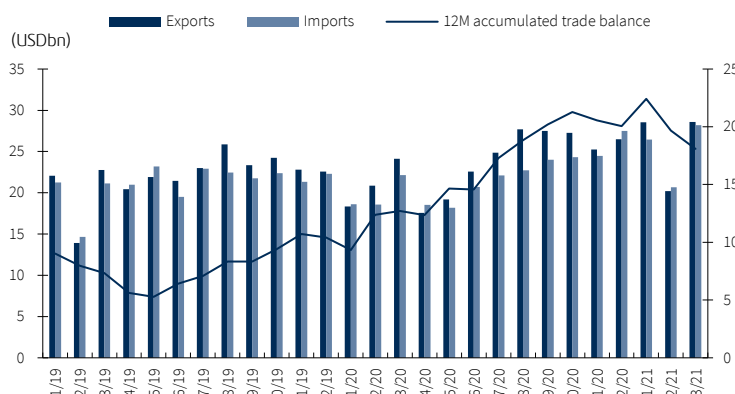
Source: State Bank of Vietnam, KB Securities Vietnam

4. 2021F exchange rates

USD supply is forecast to be stable in the last three months of the year

The USD supply is assessed to be stable in the last three months of 2021, thanks to the recovery of exports, FDI and remittance inflows. Vietnam's 9M21 export turnover still reached USD240.5 million (+18.8% YoY) and surpassed import turnover since the end of August, despite the negative impacts of the pandemic. With the manufacturing sector gradually recovering after the lockdown and the consumption demand increasing in many countries by the end of the year, we believe that Vietnamese businesses will continue to promote exports in the months to come to bring in more US dollars. Besides, 7M21 remittances of Ho Chi Minh City (accounting for 30% of the country's remittances) still posted a high level of USD3.7 billion (+19% YoY) and is expected to continue to grow in the next months. The disbursement of FDI inflow is forecast to rise after investors' confidence increases once the pandemic is under control (as analyzed in 2021F GDP growth).

Fig 28. Vietnam – Imports & Exports (USDbn)



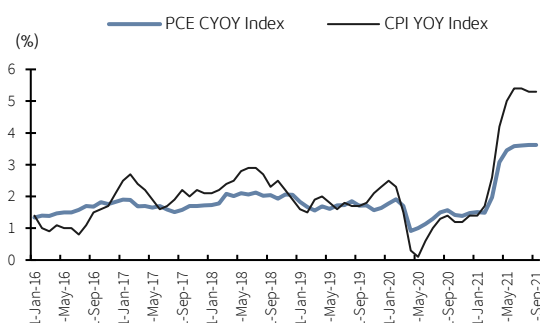
Source: Fiiipro, KB Securities Vietnam

USD/VND exchange rate is forecast to slightly increase

Appreciating USD contributed to a slight increase of 0.5–1% in USD/VND exchange rate in 4Q. The increase is negligible thanks to the stable USD supply. In the third quarter, the US Dollar Index (DXY), which measures the strength of the dollar against currency basket, increased by 1.9% QoQ to 94.23 points concentrating in the second half of September, before and after the FOMC meeting. This uptrend will likely keep going on because we assess that the Fed will maintain a more cautious monetary policy through reducing monthly asset purchases and lifting interest rate due to the following reasons:

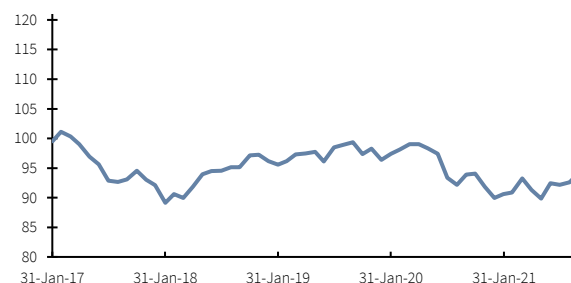
- Inflation risks increase when the personal consumption expenditures price index (PCEPI) of the US, a measure of prices used by the FOMC, escalated and exceeded its target at 2% for four consecutive months
- The ADP National Employment Report also showed that the monthly change in private nonfarm employment has picked up again after a severe decline in April 2020 to –20,236,000.

Fig 29. The US – PCE inflation rates (%)



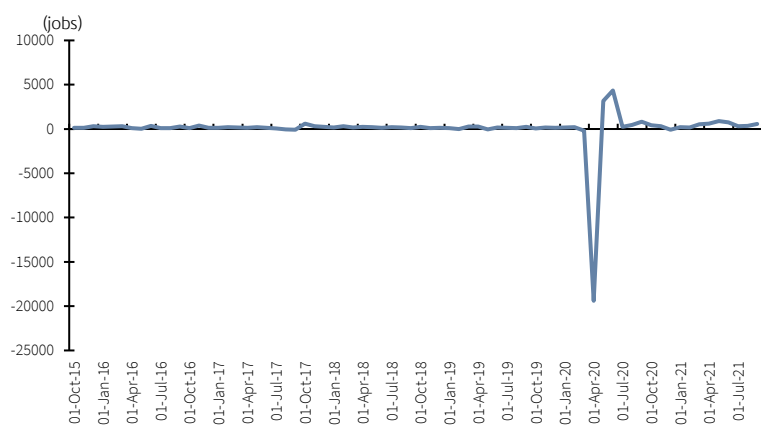
Source: State Bank of Vietnam, KB Securities Vietnam

Fig 30. The US – The US Dollar Index (points)



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 31. World – ADP National Employment Report (jobs)



Source: Bloomberg, KB Securities Vietnam

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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 |

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