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SUMMARY

- The global economy shows signs of recovery with confidence boosted by the COVID-19 vaccination but still contains uncertainties and varies across countries and economic sectors.
- Oil prices surged in Q1/2021 due to the efforts of OPEC+ to cut production and the bright outlook of the global economy. However, the uptrend is likely to reverse next quarter due to the precarious pandemic situation in Europe and the decision of OPEC+ to raise oil production from May to July.
- Chinese economy sprang back to the pre-pandemic growth rates. In 2021, the Chinese government plans to maintain flexible monetary policy and fiscal stimulus packages.
- With effective support policies and a strong boost to the COVID-19 vaccination, the U.S. economy in 2021 is expected to recover more rapidly than the forecast in October 2020.
- The economic recovery of EU nations, especially those depending on tourism, will continue to face several difficulties in 2021 due to the outbreak of the pandemic following the emergence of a new SARS-COVID-2 variant, plus the slow vaccination progress.
- Vietnam's economy maintained a growth rate of 4.48% (yoy) in Q1/2021, equal to the rate of Q4/2020 and higher than that of the same period in 2020 (3.82% (yoy)).
- In 2020, the country had 29,300 newly registered enterprises, with a total registered capital of more than VND 447.8 trillion and 245.6 thousand registered employees, recording a decrease of 1.4% in the number of enterprises, an increase of 27.5% in registered capital, and a climb of 0.8% in the number of employees, compared to the same period of 2020.
- The average CPI in Q1/2021 went up by 0.29% (yoy), the lowest increase in the past 20 years. Inflation (yoy) is expected to rise rapidly starting from April 2021.
- The central rate of VND versus USD was on an upward trend during Q1/2021, climbing to VND/USD 23,244 at the end of the quarter. Exchange rates at commercial banks dwindled in January and slightly rose from February, ending up at 23,170 VND/USD.
- Domestic gold prices continuously diverge from world gold prices as supply became scarcer after the government tightened border management to prevent the spread of COVID-19, while customers' demand expanded as an asset for safety.
- Vietnam's economic growth in 2021 is forecasted to reach 6,0-6,3%.
- Monetary policy needs to carefully balance between easing economic activities and maintaining macroeconomic stability, as inflation risk may rise in 2021.

WORLD ECONOMY

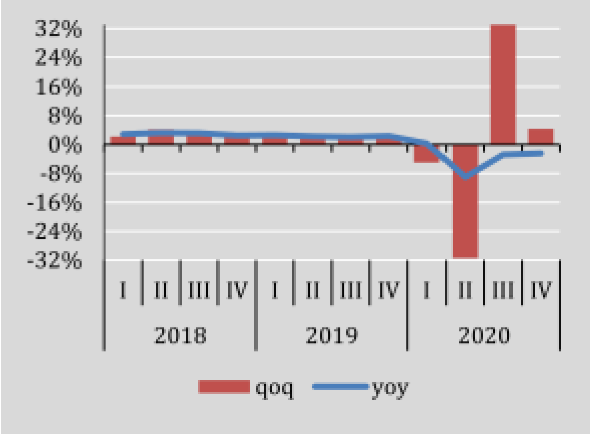
The U.S. economy recovered robustly

According to the third estimate released by the Bureau of Economic Analysis (BEA), the U.S. economy in 2020 recorded a growth rate of negative 3.50%, this country's deepest recession since World War II. The reason is the decline in aggregate demand caused by the COVID-19 pandemic, which is present across all components, including private consumption, exports, private inventory investment, nonresidential, and state and local government spending (partially offset by an expansion in federal government spending and residential fixed investment). However, the U.S. economy in the second half of the year showed signs of recovery with growth rates of 33.40% (qoq) and 4.30% (qoq) in Q3 and Q4, respectively. Along with the effective support policies and the strong boost to the COVID-19 vaccine progress, the U.S. economy, according to the latest IMF forecast in April 2021, will expand at a rapid pace of 6.40% (yoy) in 2021, 3.30 percentage points higher than the forecast in October 2020.

At the end of February 2021, the headline U.S. inflation reached 1.68%, while the core inflation was 1.28%. Concerning economic sectors, indicators of manufacturing and services generally remained positive in Q1. NMI plunged in February under the influence of the unusual snowstorm and soaring manufacturing and services prices; however, it remained above 50. March marked the robust recovery of U.S. services, with Business Activity NMI and New Orders NMI reaching record highs of 69.4 and 67.2, respectively. The lifting of COVID-19 restrictions this month helped unleash demands for services in the U.S.

The unemployment rate (seasonally adjusted) continued its downtrend to 6.0%

U.S. economic growth



Source: BEA, OECD

U.S. Non-Manufacturing Index

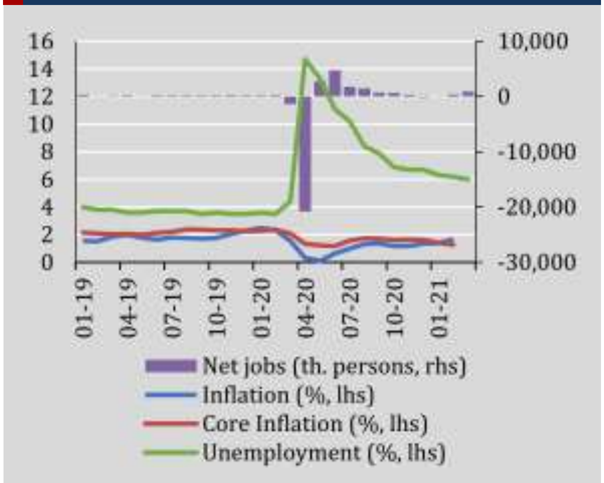
Source: ISM

in March, indicating a substantial improvement compared to the rate of 14.7% in April 2020 when lockdown rules were enforced. Net jobs bounced back in Q1/2021, reaching 916 thousand persons in March after the outbreak at the end of 2020 had been controlled to some extent.

Fed slashed interest rates to 0-0.25% in March 2020 and intends to keep this rate until 2023 while purchasing Treasury bonds and mortgage-backed securities to adjust the market. Following a series of fiscal packages that were launched in 2020 in response to the COVID-19 pandemic, on March 11, 2021, the newly elected President, Joe Biden, signed a new relief bill worth USD 1.9 trillion to send direct payments of up to USD 1,400, extend the USD 300 unemployment insurance through September, raise child tax credit, and support vaccination promotion campaign.

The monetary and fiscal policies that support the economy contributed significantly to the U.S. economic recovery in the second half of 2020 and early 2021

U.S. inflation and unemployment



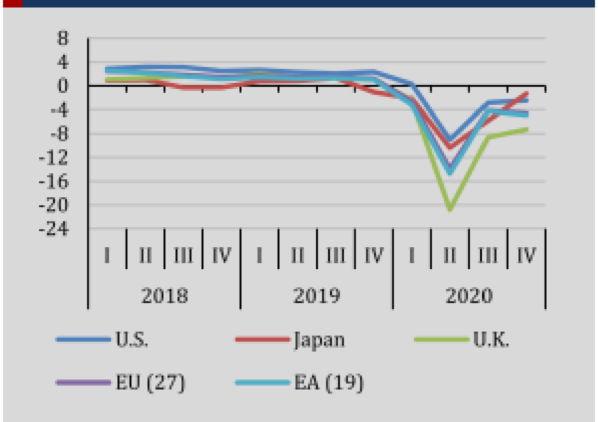
Source: OECD, BLS

but at the same time poses major challenges. According to the report by the U.S. Department of Finance on October 16, 2020, the budget deficit of the U.S. will more than triple to USD 3.1 trillion in 2020, đạt 3,1 nghìn tỷ USD, the highest level since 1945. In light of large budget deficits, public debt reached USD 27 trillion and tended to continue growing, posing a long-term concern for this country.

The European economy faced multiple barriers to recovery

In Q4/2020, Europe's economy continued to weaken, following the pre-pandemic trend. Specifically, the EU27 and EA19 regions contracted with the growth rates of negative 4.60% (yoy) and negative 4.90% (yoy), respectively, in Q4/2020, which were lower than those of Q3 (negative 4.10% (yoy) and 4.20% (yoy)). Due to the resurgence of the pandemic caused by the new SARS-COVID-2 variants,

Economic growth in advanced economies (%, yoy)



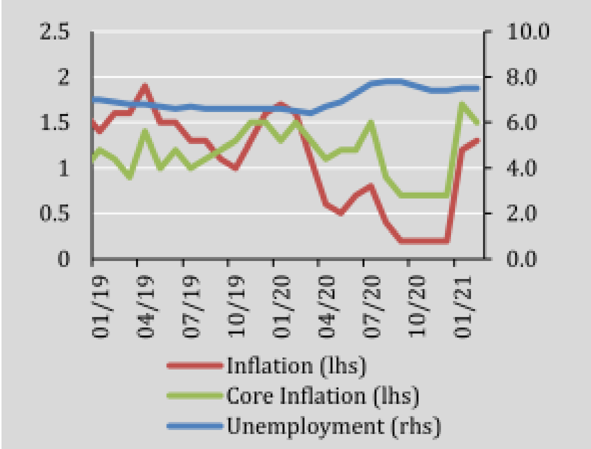
Source: OECD

plus the slow vaccination progress, many countries in this region continued to impose social distancing orders. In view of this situation, the economic recovery in the region, especially in the countries dependent on tourism, is anticipated to face numerous difficulties in 2021.

Employment in the EU27 countries witnessed positive changes in the first quarter of 2021. The unemployment rate was 7.5% in January and February. Inflation soared again from 0.2% in December to over 1% in the first two months of the year. Specifically, at the end of February, inflation reached 1.3%, of which core inflation reached 1.7%.

In the context of the precarious pandemic situation, in the meeting on January 20-21, 2021, the European Central Bank (ECB) decided to keep interest rates between minus 0.5% and 0% and continue to reinvest principal payments from maturing securities purchased under the Asset Purchase Programme (APP) at a monthly pace of EUR 20 billion in order to maintain favourable liquidity conditions and ample monetary accommodation. Simultaneously, ECB continues to conduct net assets purchases under the Pandemic Emergency Purchase Programme (PEPP) totalling 1.85 trillion EUR and expect to extend the program at least until the end of March 2022, as well as approving the plan to offer cheap bank loans in order to encourage lending. By the end of 2020, the EU officially completed the agreement on a seven-year budget worth EUR 1.8 trillion,

Unemployment and inflation in EU27 countries (%)



Source: OECD

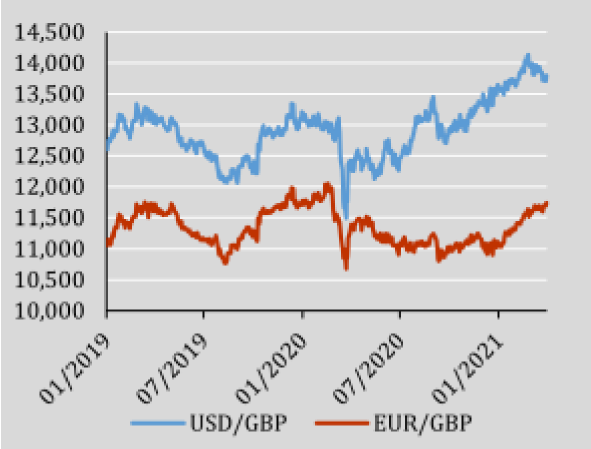
including a EUR 750 billion post-pandemic economic recovery fund.

Generally, the EUR and USD appreciated dramatically with respect to the GBP in Q1/2021. The EUR/GBP exchange rate at the end of Q1 rose by 6.1% (ytd). The USD's value against the GBP continued its momentum from Q4/2020 to near the end of February, peaking at USD/GBP 14,134. This trend of exchange rate reversed in March, falling to USD/GBP 13,969 at the end of the month.

The U.K. economy experienced a substantial slump of 9.9% in 2020. With respect to the fourth quarter, the GDP growth rate was negative 7.3% (yoy), a slight improvement from the rate of Q3 (negative 8.6% (yoy)) as more effective pandemic containment measures brightened the outlook for economic recovery and slightly stimulated investment. However, the enactment of a nationwide lockdown on January 4, 2021, due to the resurgence of the pandemic, reversed the growth in Q4 and left the U.K. economy in crisis in the early months of 2021. Successful vaccination progress, accompanied by current government support, is expected to boost the economic recovery of the U.K. in the second half of 2021.

In response to the severe financial and economic disruption caused by the spread of COVID-19, the Bank of England (BoE) cut interest rates to 0.1% in January 2020 and has held this interest rate until now. At the same time, BoE launched the Term Funding Scheme with additional incentives for SMEs (TFSME), a ten-year quantitative easing program, with GBP 300 billion of U.K. government bonds and GBP 645 billion of non-financial investment-grade corporate bonds. The U.K. government also continuously introduced financial packages in addition to loan guarantee programs and home loan rescheduling to significantly reduce financial burdens on companies and households. On January 5, 2021, a day after the national lockdown was issued, the U.K. government announced a new GBP 4.6 billion financial aid package for struggling companies. Another fiscal stimulus package worth GBP 59 billion was announced in March, including COVID-19 relief measures and measures to promote economic recovery.

EUR/GBP and USD/GBP exchange rate



Source: BoE

Japan's economy showed signs of a pickup

Generally, in 2020, Japan's economy plunged by 4.8%, the sharpest decline since the global financial crisis in 2009. However, the growth in the second half of 2020 implied prospects for Japan's economic recovery in 2021. In Q4/2020, the Japanese economy continued the momentum of Q3, recording a growth rate of negative 1.3% (yoy), a leap from the rate of Q3 (negative 5, 8% (yoy)) thanks to

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

Source: Japan Macro Advisors

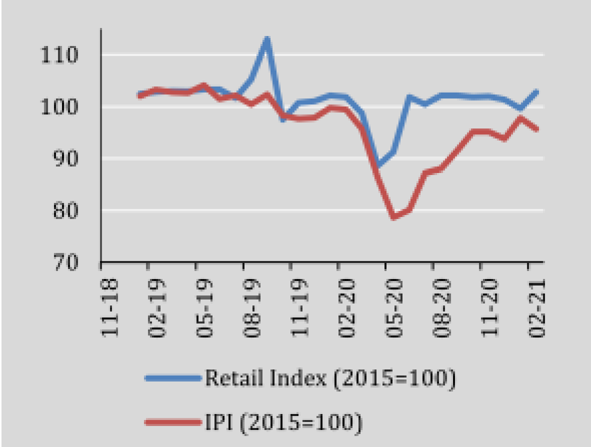
consumer spending recovery and abundant overseas demand.

However, the new wave of COVID-19 outbreak in late December posed a major 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. Japan's economy in Q1/2021 is likely to contract again as companies tend to refrain from investing, and households are bound to save.

In Q1/2021, retail, production, and exports witnessed mild fluctuations. The retail sales index fell in January due to the state of emergency and rose again in February, reaching 102.8 by the end of the month as the pandemic was controlled. The Industrial Production Index recorded a relatively notable climb in January but dropped to 95.7 in February. Inflation showed signs of rebounding in Q1. Headline inflation ended up at negative 0.4% in February, while core inflation bounced back to a positive level, 0.3%. Deflation slowed down as oil prices rose, and the government terminated the campaign to reduce domestic tourism prices in the second half of 2020. Despite the complicated situation of the pandemic, employment in the first two months of the year remained relatively stable due to governmental support and Japanese corporate culture.

The Bank of Japan maintains its quantitative easing policy by setting short-term rates at negative 0.1% and long-term

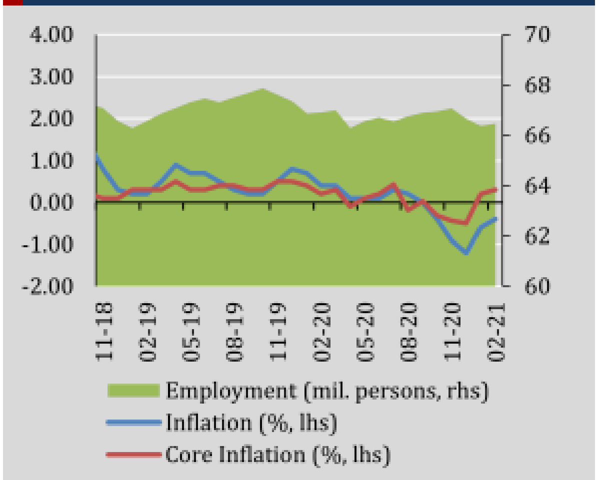
Japan's Retail Sales and Industrial Production Index (seasonally adjusted)



Source: Japan Macro Advisors

(annual) rates at around 0% with the aim of reaching the inflation target of 2%. To support the economy to overcome current difficulties, BoJ purchases additional assets, including government bonds; buy ETF and JREIT totalling JPY 12 trillion and JPY 180 billion, respectively; and buy more commercial paper and corporate bonds at the pace of JPY 7.5 trillion each until the end of March 2021. Regarding fiscal policies, in 2021, the Japanese government

Japan's inflation and employment



Source: Statistics Bureau of Japan

continues to implement the JPY 73.6 trillion Comprehensive Economic Measures to Secure People's Lives and Livelihoods toward Relief and Hope Program, aiming towards structural changes to promote post-pandemic economic development.

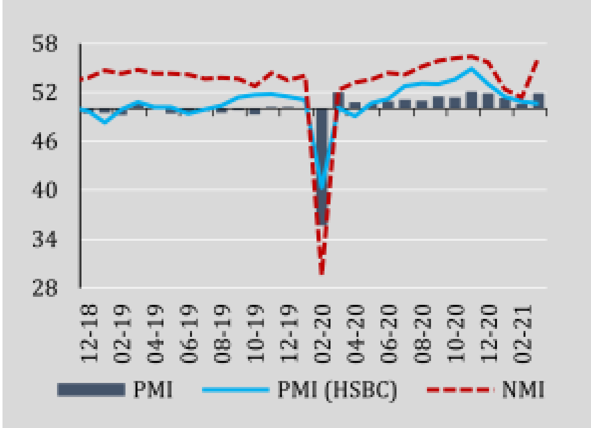
China's economy bounced back to the pre-pandemic level

China's economy in Q4/2020 continued to recover impressively due to the success in containing the virus, achieving a growth rate of 6.5% (yoy) after expanding by 4.9% (yoy) in Q3. In 2020, China recorded an economic growth rate of 2.3%, becoming the only major economy with positive growth in 2020.

An outbreak in late 2020 in Hebei Province put manufacturing and services in China in a tough situation in the early months of 2021. PMI and NMI decreased to 50.6 and 51.4, respectively, in February. As the pandemic was successfully controlled, both indices rebounded, reaching 51.9 for PMI and 56.3 for NMI in March, indicating positive signs of recovery in production and services in this country.

Regarding the foreign exchange market, after continuously going up for eight months thanks to the brilliant economic outlook in China in the second half of 2020, the CNY tends to weaken against the USD in March-February 2021 due to the appreciation of the USD as the U.S. economic situation lit up in Q1. The

China's PMI & NMI

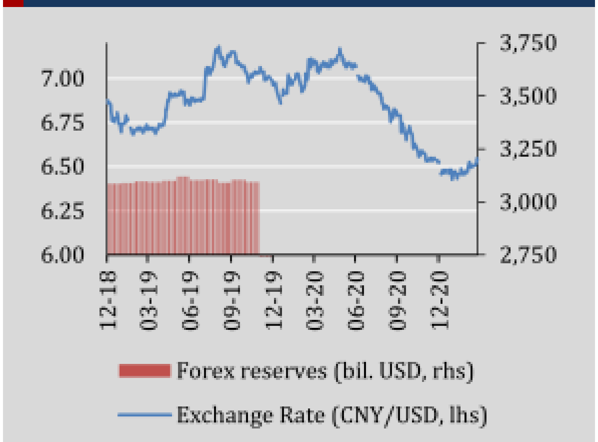


Source: AASTOCKS

CNY/USD exchange rate increased slightly during the quarter, ending up at CNY/USD 6.55 at the end of March. In addition, the People's Bank of China (PBoC) continued to show efforts to improve transparency in monetary policy, loosen controls, and allow market fluctuations to expand their role in shaping central rates.

In 2021, the Chinese government continues to maintain flexible monetary policy and fiscal stimulus packages. In 2020, the PBoC has three times cut the

China's exchange rates and forex reserves



Source: FRED, PboC

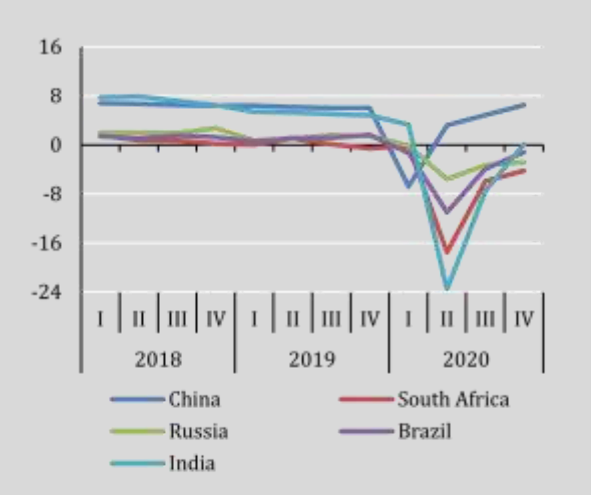
reserve requirement and provided approximately CNY 1.8 trillion to commercial banks to ensure their ability to supply capital to the economy. PBoC continues to carry out the RMB 500 billion re-loan program and the RMB 300 billion special re-loan program and at the same time spent RMB 1 trillion on the next re-loan and rediscounting policies. In terms of fiscal policy, the Chinese government continued to implement an expansionary fiscal policy as well as get ready to double the budget deficit in 2020. By the end of 2020, nearly RMB 300 billion of the RMB 2 trillion 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 revenue has been recovering since June 2020.

BRICS economies saw a weak recovery

In Q4/2020, except for China, the BRICS economies continued to decline despite slight improvements compared to Q3. Most countries experienced negative growth in the quarter.

India's economy grew by 0.1% (yoy) in Q4, higher than the rate in Q3 (negative 7.5% (yoy)) as national lockdowns were loosened, and infrastructure projects were reopened, creating favourable conditions for manufacturing and construction to pick up strongly. However, the loosening of the lockdown, coupled with the inadequate supply of vaccines in the country to meet the demand for vaccination, complicated the situation of the pandemic in the second half of Q1/2021, with continuous increases in the total number of new cases to over 12 million at the end of March, which was expected to adversely affect India's economic recovery in Q2, especially in the service sector. Since the beginning of 2020, in order to support the economy, the Indian government has launched a USD 2.1 billion relief package for the health sector; announced a USD 22.5 billion spending plan to help the poor cope with the epidemic; extended the deadline for paying income taxes and goods and services tax (GST). On February 1, 2021, the central government budget for the 2021/22 fiscal year expanded expenditures on health and well-being, including a fund for the

Economic growth in BRICS (%, yoy)



Source: OECD

country's COVID-19 vaccination program worth INR 350 billion (USD 4.67 billion). Besides, the Reserve Bank of India decided to trim the repo rate to 4.4% and the reverse repo rate to 3.35% for commercial banks making deposits to the Reserve Bank of India, allow three-month debt rescheduling for commercial banks, and reduce the required reserve ratio at commercial banks to 3%.

In Q4/2020, Russia's economy declined by 2.8% (yoy), suggesting a marginal improvement from the rate of Q3 (declined by 3.3% (yoy)) since the macroeconomic foundation was solid, and the government upheld an open economy despite the second wave of COVID-19 in late 2020. 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 not to raise provision when restructuring debts for customers affected by COVID-19 and offered loan programs with preferential interest rates of 0 - 5% to help businesses pay salaries and maintain operation. In addition, RUB 300 billion was provided to assist people who lost their jobs due to lockdown measures. The total cost of the 2020 fiscal package was estimated at around 3.5% of GDP. The 2021 fiscal package is expected to be significantly lower, at around 1.5% of GDP.

South Africa's economy continued to show signs of recovery in Q4/2020, with a growth rate of negative 4.2% (yoy), higher than the rate of negative 5.9% (yoy) in Q3, in which tourism and hospitality experienced the steepest decline as the government due to the re-imposition of curfews, alcohol bans and beach closures. The outbreak of COVID-19, which pushed up the need for economic support measures, put further pressure on revenue collection in South Africa. Statistics released by the National Treasury of South Africa showed that the state budget by the end of November recorded 77% larger deficits than that of the same period last year. Regarding monetary policy, the South African Reserve Bank (SARB) four times lowered the repo rate in 2020 to 3.5% and kept it until now. The USD 29 million economic stimulus package was issued in April 2020 and lasted until the end of April 2021 to support the people, but so far, the implementation of this policy is considered ineffective due to corruption.

Brazil's economy in Q4/2020 recorded a growth rate of negative 1.2% (yoy), higher than the growth rate of Q3 (negative 3.9% (yoy)), indicating that the economic recovery momentum was maintained. Even so, the recovery of the Brazilian economy, which relies heavily on consumer demand, is highly likely to face difficulties in Q1 as the resurgence of the pandemic pushes the death toll of this country to a record high. To avoid high inflation, in early March, the Central Bank of Brazil raised the reference rate (SELIC) by 75bps from 2% after cutting it twice in March and August 2020. In the same month, the government approved an extension of the USD 7.9 billion emergency aid for millions of Brazilians struggling in the COVID-19 pandemic.

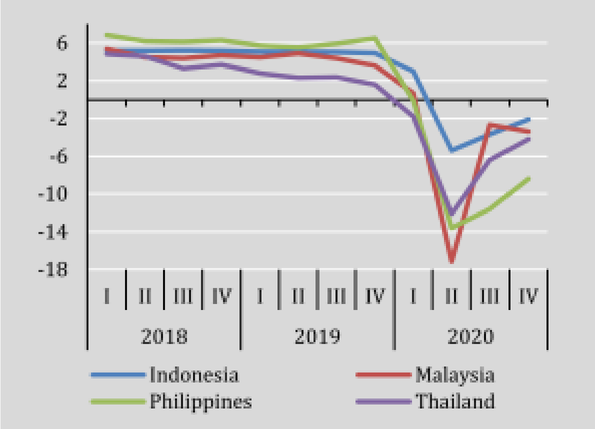
ASEAN economy continued to contract

In Q4/2020, the ASEAN-4 countries (Indonesia, Malaysia, Philippines, and Thailand) continued to decline, but three of the four countries (including Indonesia, the Philippines, and Thailand) showed positive signs of economic recovery. ASEAN-4's economic outlook is anticipated to be less gloomy in 2021, thanks to the vaccination race and the recovery of the global economy.

Indonesia's economy shrank at a slower rate in Q4/2020 than the decline of 3.7% (yoy) in Q3/2020, but the growth rate remained negative 2.1% (yoy) due to the contraction of private consumption under the influence of COVID-19 mobility restrictions. Bank Indonesia further slashed its benchmark interest rate by 25 bps to 3.5% in February 2021 after five times of lowering it in 2020. Besides, in February 2021, the government announced to increase the budget for the national economic recovery program (PEN) to IDR 699.4 trillion, raising the level of support for healthcare to IDR 173.3 trillion, including the budget for the vaccination program.

In Q4/2020, the Philippines' economic growth hit negative 8.4% (yoy), the lowest among the ASEAN countries, due to the

Economic growth in ASEAN-4 countries (%, yoy)



Source: OECD, DOSM, CEIC, NESDC

continuous fall in domestic consumption due to the COVID-19 containment measures, particularly quarantines and age restrictions. However, compared to the Q3 growth rate (negative11.6% (yoy)), growth in Q4 showed a moderate recovery of the Philippines' economy. With respect to fiscal policy, in 2020, the government launched three financial assistance packages worth USD 526 million, USD 11.9 billion, and USD 3.4 billion, respectively, in March, May, and September to fight the pandemic, support the vulnerable groups, affected workers, and struggling businesses and boost economic recovery. By 2021, under the pandemic emergency law, Bayanihan 2, government agencies are allowed to use the 2020 national budgets and funds until June 2021 to alleviate the effects of the pandemic and promote economic recovery. Regarding monetary policy, since the emergence of the pandemic, the Central Bank of the Philippines (BSP) has lowered its benchmark rate five times (cumulative 200 bps) to 2.0%, reduced the required reserve ratio in commercial banks, and purchased PHP 300 billion worth of government securities to enhance market liquidity. BSP also increased banks' limit on real estate lending from 20% to 25% of the total lending portfolio.

Thailand's economic growth in Q4 was negative 4.2% (yoy), showing an improvement from the growth rate of negative 6.4% (yoy) in Q3 as government stimulus packages encouraged spending, and agriculture grew again, while other industries declined at a slower rate than the previous quarter. The Thai government issued various fiscal stimulus packages in 2020 to reduce the impacts of the pandemic and serve the economic recovery. In 2021, the government announced a series of new fiscal measures in January, including cash payments totalling up to USD 7 billion to combat the second wave of outbreaks. Under the plan, each beneficiary received THB 3,500 monthly for two months starting from the beginning of February. Since the beginning of 2020, the Bank of Thailand has cut the policy rate by a cumulative 75 bps to 0.5%, and the financial institution's contribution to the FIDF has reduced from 0.46% to 0.23% to create fiscal space for future interest rate cuts. In mid-February 2021, the Cabinet approved a THB 50 billion concessional loan program to provide low-interest loans in up to three years to informal workers and small- or medium-sized enterprises in the tourism sector. In addition, restrictions to combat the pandemic have been eased since April 2021 to promote tourism recovery, including shortening the mandatory quarantine period from 14 days to 10 days for international visitors from countries that do not contain virus variants of concern.

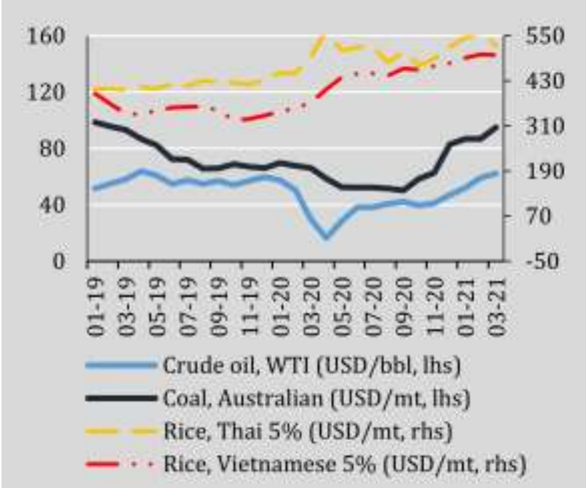
Malaysia's economy grew at a rate of negative 3.4% (yoy) in Q4, lower than the growth rate of negative 2.7% (yoy) in Q3. The main reason was the prolonged conditional movement control order (CMCO), leading to the contraction of most economic sectors, especially tourism. In 2020, the Malaysian government launched five economic stimulus packages totalling 72.4 USD to mitigate the effects of the COVID-19 pandemic. In early 2021, the government continued to add two new stimulus packages worth USD 3.6 billion and USD 4.8 billion in January and February, respectively, to support affected individuals and businesses and boost economic recovery. Since the beginning of 2020, the Central Bank of Malaysia (BNM) has four times lowered the policy rate (cumulative 125 bps) to 1.75% and lowered the required reserve ratio in commercial banks to 2.0%.

The global commodity and asset markets experienced a divergence

The global commodity market in Q1/2021 saw a divergence in prices between energy and food products. Crude oil prices skyrocketed in Q1 from USD 47.10/barrel in December to USD 62.35/barrel in March. This trend is attributable to Saudi Arabia's unexpected announcement to reduce crude production by one million barrels per day from February to the end of March, as well as military tensions in the Persian Gulf. However, oil prices are highly likely to have a downward trend in Q2 due to the agreement of the OPEC+ to increase oil production from May to July, as well as the slow recovery of fuel demand in the wake of the third COVID-19 wave in Europe. Regarding other energy commodities, Australian coal prices marginally fell during January-February but surged again in March due to tightened supplies under the influence of floods in Eastern Australia. Australian coal prices were USD 94.92/ton at the end of Q1, 14.4% higher than the prices at the end of the previous quarter.

In term of food products, rice prices were on an uptrend in the first two months and dwindled in March. Thai rice prices peaked at USD 557/ton in February and then went down to USD 525/ton in March as domestic prices dropped and the THB depreciated. Meanwhile, the Vietnamese rice market continued to witness an uptrend in prices, hitting USD 500/ton for the first time since 2008. It is forecasted that world rice prices will continue to

Commodity Prices



Source: The Pink Sheet – WB

decline due to abundant supplies as the winter-spring crops are being harvested.

On the asset market, world gold prices in Q1 continued to depreciate, plummeting in the last week of February and the first week of March to below USD 1,700/oz for the first time in nine months. In 2020, geopolitical tensions and new disease outbreaks made the world economic outlook precarious and weakened the major currencies, pushing up investors' demand for gold, subsequently causing gold prices to hit three-year highs. In early 2021, demand for gold fell as a result of investors' expectation of an economic recovery when vaccination promotion policies were implemented in several major economies around the world, leading to a gradual decline in gold prices in the first months of the year, which was expected to continue in the following months as the stability of the world economy increased after the pandemic.

Global Economic Prospect (%)

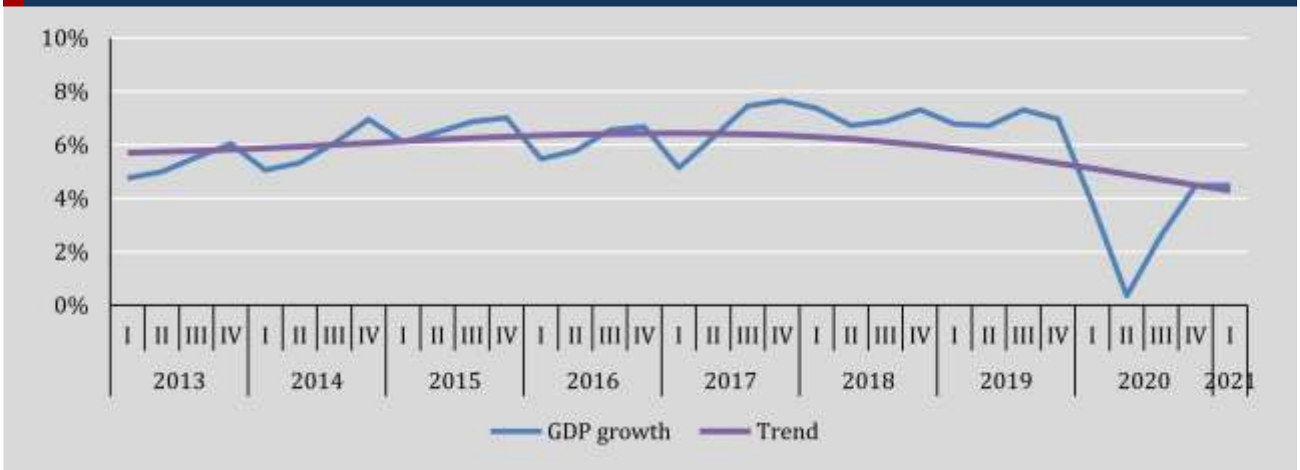
	WEO (4/2021, IMF)			GEP (1/2021, WB)		
	2020e	**2021p**	**2022p**	**2019e**	**2020e**	**2021p**
World	**-3.3**	**6.0 (0.9)**	**4.4 (0.2)**	**2.3**	**-4.3 (0.9)**	**4.0 (-0.2)**
Developed economies	**-4.7**	**5.1 (1.2)**	**3.6 (0.7)**	**1.6**	**-5.4 (1.6)**	**3.3 (-0.6)**
U.S.	-3.5	6.4 (3.3)	3.5 (0.6)	2.2	-3.6 (2.5)	3.5 (-0.5)
Eurozone	-6.6	4.4 (-0.7)	3.8 (0.7)	1.3	-7.4 (1.7)	3.6 (-0.9)
U.K.	-9.9	5.3 (-0.6)	5.1 (1.9)			
Japan	-4.8	3.3 (0.9)	2.5 (0.9)	0.3	-5.3 (0.8)	2.5 (0.0)
Emerging and developing economies	**-2.2**	**6.7 (0.6)**	**5.0 (-0.1)**	**3.6**	**-2.6 (-0.1)**	**5.0 (0.4)**
Russia	-3.1	3.8 (0.9)	3.8 (1.4)	1.3	-4.0 (2.0)	2.6 (-0.1)
China	2.3	8.4 (0.2)	5.6 (-0.2)	6.1	2.0 (1.0)	7.9 (1.0)
India	-8.0	12.5 (3.7)	6.9 (-1.1)	4.2	-9.6 (-6.4)	5.4 (2.3)
Brazil	-4.1	3.7 (0.8)	2.6 (0.3)	1.1	-4.5 (3.5)	3.0 (0.8)
South Africa	-7.0	3.1 (0.1)	2.0 (0.4)	0.2	-7.8 (-0.7)	3.3 (0.4)
ASEAN-5	**-3.4**	**4.9 (-1.3)**	**6.1 (0.4)**			
Indonesia	-2.1	4.3 (-1.8)	5.8 (0.5)	5.0	-2.2 (-2.2)	4.4 (-0.4)
Malaysia	-5.6	6.5 (-1.3)	6.0 (0.0)	2.4	-5.8 (-2.7)	6.7 (-0.2)
Philippines	-9.5	6.9 (-0.5)	6.5 (0.1)	6.0	-8.1 (-6.2)	5.9 (-0.3)
Thailand	-6.1	2.6 (-1.4)	5.6 (1.2)	2.4	-6.5 (-1.5)	4.0 (-0.1)
Vietnam	2.9	6.5 (-0.2)	7.2 (-0.2)	7.0	2.8 (0.0)	6.7 (-0.1)
Laos	-0.4	4.6 (-0.1)	5.6 (0.0)	4.7	-0.6 (-1.6)	4.9 (0.3)
Cambodia	-3.5	4.2 (-2.6)	6.0 (-1.4)	7.1	-2.0 (-1.0)	4.0 (-2.2)
Myanmar	3.2	-8.9 (-14.5)	1.4 (-4.8)	6.3	1.7 (0.2)	2.0 (-4.4)

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

VIETNAM'S ECONOMY

Economic Growth

Vietnam's economic growth (%, yoy)

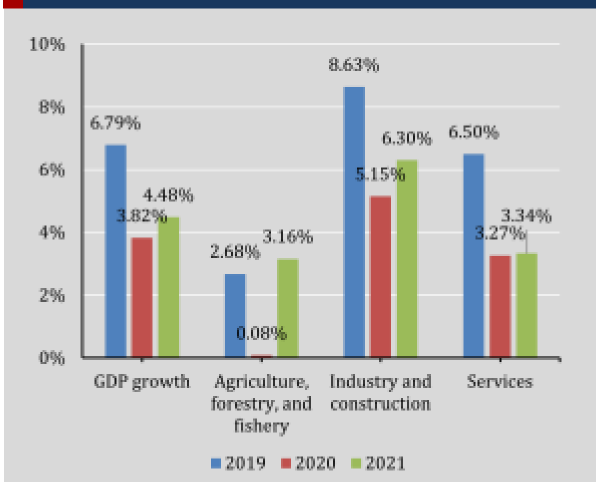


Source: Authors' calculation based on GSO data

Vietnam's economy maintained a growth rate of 4.48% (yoy) in Q1/2021, equal to the rate of Q4/2020 and higher than that of the same period in 2020 (3.82% (yoy)). In Q1/2021, the agriculture, forestry, and fishery sector grew by 3.16% (yoy); the industry and construction sector grew by 6.30% (yoy); the service sector grew by 3.34% (yoy).

In the first quarter, agriculture, forestry, and fishery experienced robust growth as productivity and output of crops and livestock improved and the market for wood and forest products expanded. Particularly, compared to the same period in 2020, agriculture, fishery, and forestry went up by 3.19%, 3.78%, and 2.90%, respectively. The agricultural sector achieved the third-highest yoy growth rate compared to other first quarters during 2011-2021 as the weather was favourable, and the African swine fever was well-controlled, facilitating the enhancement of crop productivity and recovery of livestock production. The saline intrusion was alleviated compared to the same period last year, resulting in improved seafood production in the quarter. Officially came into effect on August 1, 2020, the European Union - Vietnam Free Trade Agreement

Economic growth by sector in the first three months (%, yoy)



Source: GSO

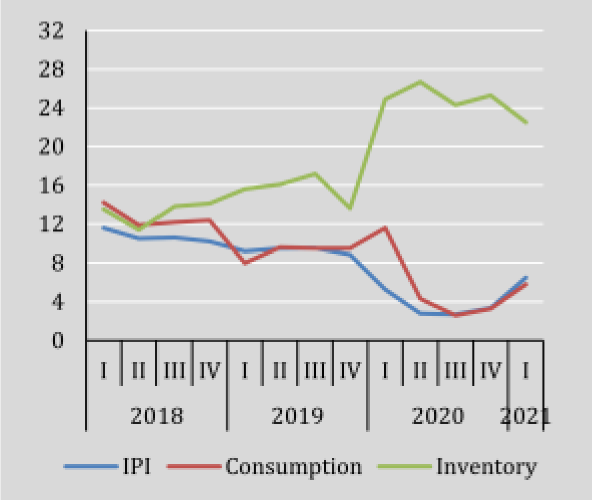
(EVFTA), if effectively implemented, will give momentum to the long-term growth of the agriculture, forestry, and fishery sector.

Regarding the industrial and construction sector, industry in Q1/2021 increased by 6.5% (yoy), higher than the growth rate of the same period in 2020 (5.1% (yoy)) but remarkably lower than that of the same period in 2018 and 2019 (10.45% (yoy) in 2018 and 9% (yoy) in 2019). The manufacturing and processing industry climbed by 9.45% (yoy), becoming the driving force of growth in the quarter. During the third outbreak in Vietnam, thanks to the drastic efforts of the government at all levels, the damage to businesses was significantly reduced, maintaining a favourable environment for individuals and businesses and thereby attracting FDI and other investment flows into the manufacturing and processing industry. Meanwhile, the mining industry plunged by 8.24% (yoy) due to plummeting crude oil and natural gas production. Construction jumped 5.17% (yoy), higher than the growth rate of 4.37% (yoy) in Q1/2020.

As the government effectively controlled the pandemic and made good use of Free Trade Agreements, the service sector showed positive signals in Q1/2021, with a growth rate of 3.34% (yoy). In the service sector, wholesale and retail improved by 6.45% (yoy), finance, banking, and insurance grew by 7.35% (yoy), transportation and warehousing shrank by 2.17% (yoy), and food and accommodation services contracted by 4.49% (yoy) as the pandemic heavily impacted the tourism industry. The number of international arrivals to Vietnam in the quarter was estimated at 48,104, dropping by 98.7% compared to Q1/2020, which was before Vietnam officially banned foreign visitors.

The Industrial Production Index (IPI) in Q1/2021 rose by 6.5% over the same period in 2020, while the consumption index of the manufacturing and processing climbed by 5.8% (yoy). The average

Selected industrial indicators (%, ytd)



Source: GSO

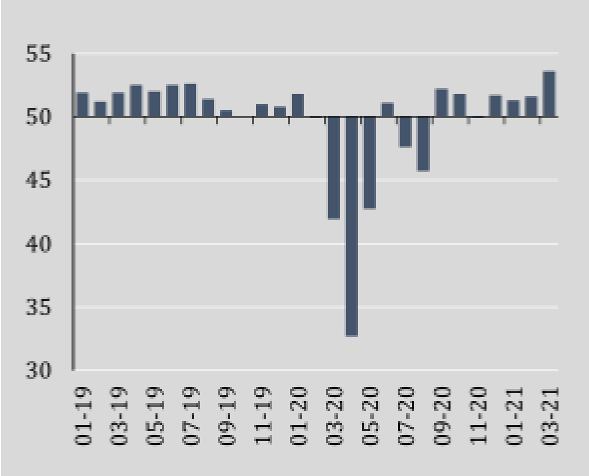
inventory index continued to shot up, following the upward trend from 2018, reaching 22.5% over the same period in 2020, yet lower than the growth in Q1/2020 (24.6% (yoy)). This suggests that domestic enterprises are temporarily shutting down and scaling down production.

The industrial sector returned to growth

COVID-19 had a substantial negative influence on Vietnam's industrial sector in 2020. By 2021, despite the improvement in the business environment of the industrial sector due to successful pandemic control, supply chain disruptions continued. In January, input costs rose at the most rapid pace since June 2018, causing PMI to decline to 51.3, slightly lower than December. However, PMI is on an upward trend in the following months of Q1/2021, ending up at 53.6 in March, indicating that the demand in the market shows signs of steady improvement, and enterprises are making progress in restoring production.

Survey results on business trends of enterprises in the manufacturing and processing industry in the Q1/2021 showed that: 29.6% of enterprises believed the business performance in Q1/2021 was better than Q4/2020; 31.4% stated it was difficult, and 39.0% assessed that the business and production situation was stable. These results were less positive than those of Q4/2020 (in which the figures were 40.6%, 24.7%, and 34.7%, respectively), showing that the third COVID-19 wave affected business confidence adversely. It is expected that in Q2/2021, compared to Q1/2021, 51.0% of businesses believe the business performance will improve, 14.9% of businesses state it will be difficult, and 34.1% of businesses assess that the business and production situation will be stable.

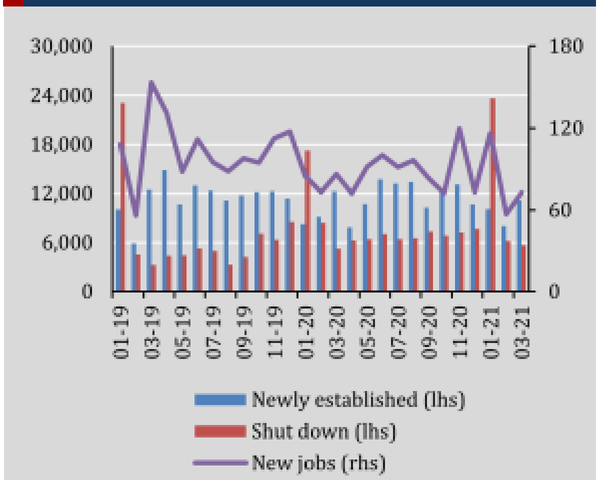
Vietnam's PMI



Source: IHS Markit

In Q1/2021, 29.3 thousand enterprises were newly registered all over the country, 1.4% fewer than that of the same period in the preceding year. In addition, the number of enterprises back in operation was 14.7 thousand, falling by 0.5% from the same period of the preceding year. Nevertheless, the total newly registered capital was 27.5% higher than the same period of the preceding year, reaching VND

Business operations (th. units; th. persons)



Source: GSO

447.8 trillion due to the growth in the number of enterprises with registered capital of over VND 100 billion (an increase of 36.8%). The number of registered employees also climbed by 0.8% to 245.6 thousand. In Q1/2021, the number of enterprises shutting down temporarily or in the dissolution process was 35.53 thousand, a rise of 15.6% over the same period of the preceding year.

Retails and services are on the road to recovery

In Q1/2021, the growth of retail sales of consumer goods and services slowed down after surging in January.

Total retail sales of consumer goods and services in Q1/2021 was estimated at VND 1,291.1 trillion, going up by 5.1% over the same period in 2020, and if excluding the price factor, it rose 4.42% (yoy). Facing the order of social distancing during the Lunar New Year holiday, several retail businesses switched to exploit e-commerce channels and take advantage of delivery services to meet citizens' demands for shopping. As a result, the retail industry is not significantly affected by the resurgence of the pandemic.

It is also noted that retail statistics based on conventional methods may be underestimated if they fail to cover the e-commerce market.

Retail growth (%, ytd, yoy)

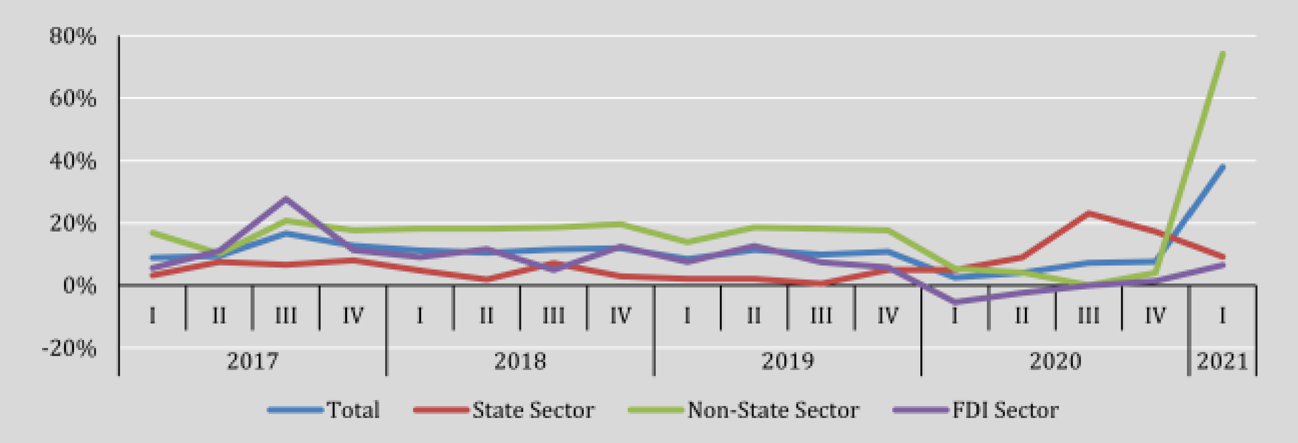
Source: GSO

Investment capital growth from the non-state sector accelerated sharply

In Q1/2021, social investment capital reached VND 507.6 trillion, a jump of 38.0% (yoy), showing positive signs in mobilizing and using investment capital for economic recovery. The non-state economic sector remains the primary source of social investment (57.2%), with an uplift of 74.23% over the same period in the preceding year, reaching VND 290.1 trillion.

Investment capital from the state sector climbed by 9.19% (yoy), reaching VND 122.4 trillion, accounting for 24.1% due to efforts to boost disbursement of public investment capital to promote Vietnam's economic growth in the context of the COVD-19 pandemic. Foreign direct investment climbed by 6.49% over the

Social investment capital growth (yoy), 2017-2021



Source: Authors' calculation based on GSO

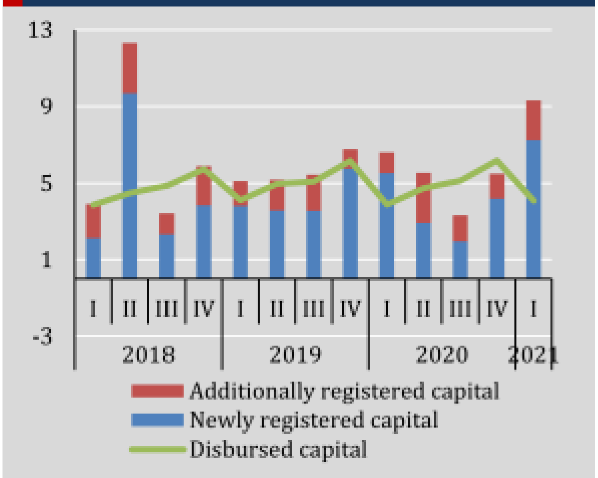
same period in 2020, reaching VND 95.1 trillion, accounting for 18.7%.

In Q1/2021, total disbursed capital reached USD 4.1 billion, slightly increasing by 5.13% compared to the same period in 2020. Total newly and additionally registered foreign investment capital hit USD 9.32 billion, the highest level since Q3/2018. Newly and additionally registered foreign investment capital in the quarter surged by 40.6% as the recovery of major economies in the world, along with the effective pandemic control, solidified foreign investors' confidence in the business-production environment in Vietnam.

In the first quarter of 2021, Singapore remained the major FDI investor with USD 4.4 billion, accounting for 47.2% of the total FDI flows, a marginal increase of 2.6% (yoy). The second place is Japan with USD 2.0 billion, rising by 570.7% (yoy); South Korea ranked third, hitting USD 1.07 billion, soaring 161.7%; China reached USD 0.93 billion with a jump of 45.8%.

In Q1, 234 new projects were licensed with total registered capital of USD 7.2 billion, dropping by 69.1% in the number of projects and 30.6% in total registered capital compared to the same period in the preceding year. The slide in the number of projects is a consequence of the transition from the 2014 Investment Law to the 2020 Investment Law, affecting the issuance and

FDI flows into Vietnam



Source: GSO

adjustment of FDI projects in Vietnam. However, the number of large-scale projects climbed, leading to the growth in total newly registered capital.

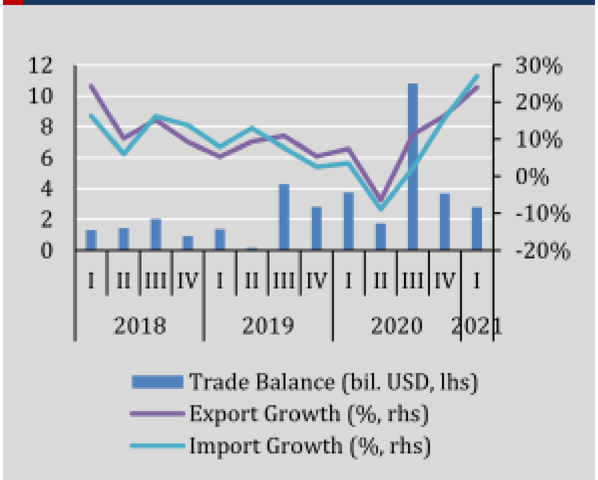
The manufacturing and processing industry was the largest FDI attraction in the first quarter, with the registered capital of newly licensed projects reaching USD 5 billion, accounting for 49.6% of the total newly-registered capital. The second major FDI industry is electricity, gas, hot water, steam, and air conditioning production and distribution with nearly USD 3.9 billion, building up 38.9%. The electricity production and distribution (clean energy) industry is one of the industries with enormous potential as the electricity demand is growing in Vietnam, and this industry is the government's top priority in investment. Some large-scale investment projects in the first three months of 2021 include Singapore's LNG Long An I and II power plant with total registered capital of USD 3.1 billion, aiming to transmit, distribute, and generate electricity in Long An; Japan's O Mon II thermal power plant with total capital of USD 1.31 billion to build a thermal power plant to meet the demand for electricity of the regional electrical network and the national electrical power system in Can Tho; South Korea's LG Display Hai Phong Project with total capital of USD 750 million; and so on.

The trade balance in Q1/2021 saw a surplus of USD 2.8 billion

According to the General Department of Vietnam Customs (GDVC), the balance of trade in goods in Q1/2021 was estimated to have a surplus of USD 2.8 billion, lower than that of the same period in 2020 (USD 3.7 billion) as imports grew at a faster rate than exports. The domestic sector witnessed a deficit of USD 6.43 billion, rising by 60.9% (yoy) (a deficit of USD 4,00 billion in Q1/2020, shrinking 41.0% (yoy)). FDI sector saw a surplus of USD 9.23 billion, climbing by 19.2% (yoy) (a surplus of USD 7.74 billion in Q1/2020, increasing by 5.52% (yoy)).

Export turnover of goods in the first quarter steadily grew, reaching USD 78.40 trillion with an increase of 23.99% (yoy) (Q4/2020 export turnover rose by 16.36% (yoy)). Exports from FDI enterprises

Trade balance and growth

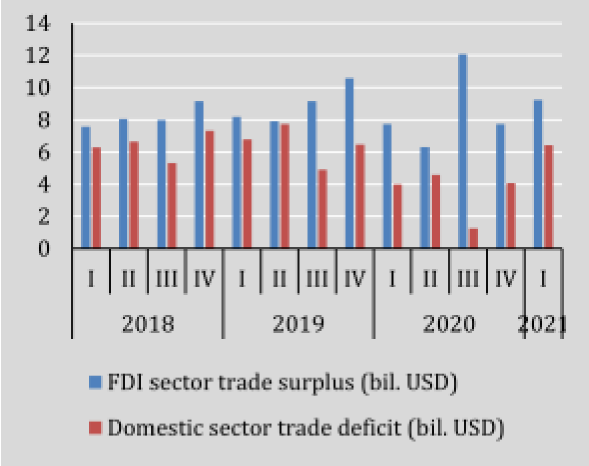


Source: GDVC

accounted for the most significant proportion, USD 58.95 billion, with a climb of 38.53% (yoy) (adding up 75.19% of total turnover). Export from the domestic sector fell by 5.94% (yoy), reaching USD 19.45 billion. Exports of telephones, mobile phones, and parts thereof were estimated at USD 14.37 billion, 11.6% higher than the same period in 2020. Exports of computers, electrical products, spare parts, and components thereof were estimated at USD 11.95. billion, increased by 31.2%; exports of machine, equipment, tools, and instruments reached USD 9.1 billion, going up by 77.2%; exports of textile and garment were USD 7.2 billion, rising 1.4%; and so on. Rice exports reached USD 0.65 billion, going down by 11.6%. Exports of seafood products were USD 1.7 billion, climbing 6.3%. In general, the majority of key exports was still attributable to the FDI sector. Several traditional export markets face difficulties caused by the pandemic, but there have been certain recoveries in seafood products as the tariff incentives under EVFTA were effectively taken advantage of, the shortage of containers was improved, and China's restrictions on seafood were loosened.

Total import turnover in Q1 was estimated to pick up 27.08% (yoy) to USD 75.61 billion (Q4/2020 import turnover climbed 15.71% (yoy)). Specifically, imports to the FDI sector went up by 42.82% (yoy), representing 65.77% of import turnover (that of Q1/2020 accounted for only 58.52%). Regarding the composition of

Trade balance by sector



Source: GDVC

imported goods in Q1/2021, computers, electrical products, spare parts, and components thereof were estimated at USD 16.55 billion, picking up 20.2% compared to the same quarter of the previous year; machine, equipment, tools and instruments were USD 9.1 billion, shotting up 77.2% (yoy); phones and accessories grew by 11.6% (yoy); and so on.

In terms of import and export markets, in Q1/2021, the U.S. was Vietnam's largest export market with a turnover of USD 22.24 billion, which increased by 39.4% (yoy). China remained the largest import market of Vietnam with a turnover of USD 24.34 billion, rising by 50.6%. The United States was Vietnam's most important trade surplus market, reporting a surplus of USD 18.51 billion with a climb of 49.23%. Vietnam had an export surplus of USD 5.64 billion with the EU. The trade deficit from China was USD 11.78 billion and from ASEAN was USD 3.52 billion.

The upsurge of imports from China and exports to the U.S. was also one of the primary causes of the Treasury Department's allegations of Vietnam's currency manipulation according to the Omnibus Trade and Competitiveness Act of 1988. However, on April 16, 2021, this agency concluded that there was insufficient evidence of Vietnam's currency manipulation in 2020. This agency also added Vietnam to the watchlist, along with China, Japan, Korea, Germany, Ireland, Italy, India, Malaysia, Singapore, Thailand, Mexico, Switzerland, and Taiwan. In the context that Vietnam's foreign trade activities are carried out mainly by the FDI sector, facing potential risks of trade dependence, Vietnam needs to take action to diversify FDI sources.

During the first quarter of 2021, the shortage of containers on the global scale and the disruption caused by the stuck ship Ever Given blocking the Suez Canal were evidence of the fragile structure of the global supply chain. In the age of mixed economies, Vietnam needs to take cautious steps in participating in the supply chain. The trend of relocating investment out of China and other countries in the region is both a challenge and an opportunity for Vietnam to diversify FDI sources as well as expand manufacturing capacity to survive in the integrated world.

The good news is that various Vietnamese manufacturing industries are regaining robust growth momentum despite supply chain disruptions. However, the added value of these industries remains low because they are mainly assembly or heavily dependent on imported materials. Additionally, there should be policies to tighten regulations on the source of the input materials. Success in ratifying and implementing the Vietnam - EU Free Trade Agreement (EVFTA) and signing the Regional Comprehensive Economic Partnership (RCEP) is one of the essential prerequisites for Vietnam to bring these factors to the negotiating table and assist domestic firms in enhancing exports in the region.

In addition, the U.K. - Vietnam Free Trade Agreement (UKVFTA), which has temporarily taken effect since January 1, 2021, and officially comes into force on May 1, 2021, is also a potential boost to the economy. The UKFTA is negotiated based on the principles inherited from the commitments in the EVFTA and added specific adjustments according to the trade framework between the two partners. The Agreement also incorporates essential factors such as green growth and sustainable development, which is expected to contribute significantly to the trade cooperation between Vietnam and the U.K.

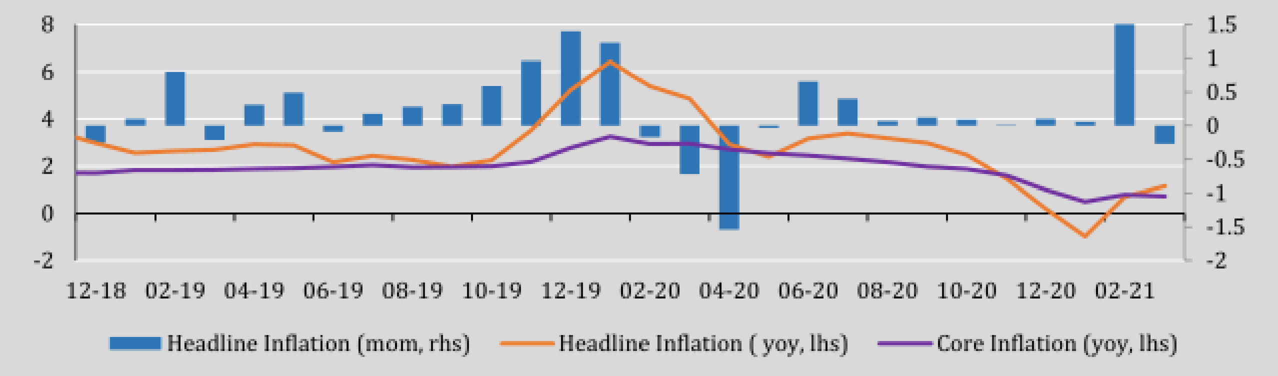
Average inflation in Q1/2021 hit the lowest level in the past 20 years

March CPI rose by 1.16% over the same period last year but fell by 0.27% (mom). The commodity groups that recorded the most rapid growth (yoy) included: (i) education grew by 4.04% due to the implementation of the school fee increase roadmap for the new school year of 2020-2021; (ii) beverage and tobacco went up by 1.73%; (iii) restaurant and catering services climbed by 1.33%. Meanwhile, the two commodity groups with the most substantial decline in consumer prices were culture, entertainment, and tourism (down 0.71%, yoy) as festivals, temples, pagodas, and spiritual and religious activities were postponed under the influence of the COVID-19 epidemic, and post and telecommunications (down 0.57%, yoy).

In general, inflation climbed slowly in Q1 (inflation in January was negative 0.97% (yoy); February was 0.70% (yoy); March was 1.16% (yoy)), which suggested weak demand. The average CPI in Q1/2021 increased by 0.29% (yoy), marking the lowest inflation in the past 20 years, which is noteworthy and seems to contradict the observed Q1 growth that is higher than expected.

Inflation (yoy) is expected to soar from April 2021 as the economic recovery pushes up the demand for goods and services. Maintaining monetary (and fiscal) easing policies may lead to consumer prices falling below the government's target of less than 4% by year-end. Therefore, monetary policies must balance between the growth target and inflation control.

Inflation (%)



Source: GSO

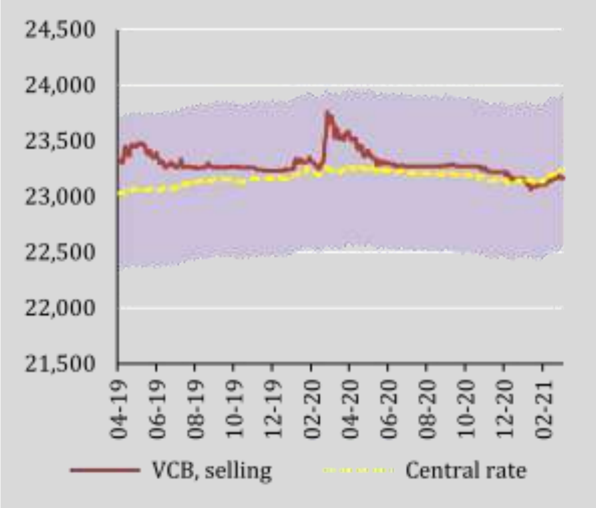
Fiscal Policy

Budget revenue and expenditure gradually rose back

According to the Ministry of Finance, the total state budget revenue in Q1/2021 was estimated at over VND 403.7 trillion, equivalent to 30.1% of the plan, indicating an increase of 0.3% (yoy) due to the positive signs of economic recovery and efforts to efforts to mobilize revenue sources.

State budget expenditure in Q1/2021 was estimated at VND 341.9 trillion, equivalent to 20.3% of the 2021 plan, going up by 0.2% over the same period in 2020 due to the policy of enhancing expenditures on pandemic prevention and ensuring social order and safety in border areas and islands during the Lunar New Year. Investment and development spending was estimated at 60.8 trillion VND, equivalent to 12.7% of the 2021 plan, dropping by 1.4% compared to the same period in 2020.

Nominal exchange rates (VND/USD)



Source: SBV, VCB

State budget deficit is strictly controlled within the scope allowed by the National Assembly, equivalent to about 3.23% 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 rising budget deficit, which has been a chronic problem in Vietnam for many years and may widen this year.

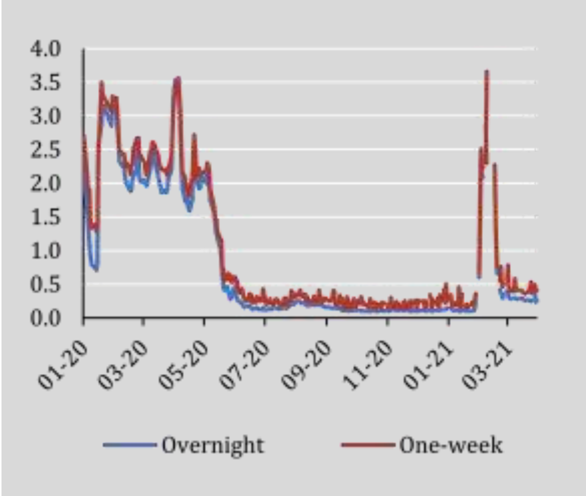
Asset Market

The central VND/USD exchange rate slightly went up during Q1/2021

The central rate has been on an upward trend during Q1/2021 to VND/USD 23,244 at the end of the quarter. The exchange rate at commercial banks dropped in January and rose slightly starting from February, following the fluctuations of the USD, ending up at VND/USD 23,170 at the end of the quarter.

The decline in the exchange rate may be attributable to the SBV's restrictions on the purchase of foreign currency as a response to the U.S. accusation of Vietnam's currency manipulation. The supply of foreign currency in Q1 remained ample due to the trade surplus (surplus of USD 2.8 billion in Q1/2021), the increase of 30.6% (yoy) in newly registered FDI, and the rise of 5.1% (yoy) in realized FDI. Meanwhile, at the beginning of 2021, the State Bank of Vietnam announced to adjust the foreign currency purchase plan as follows: (i) stop buying foreign currency in the spot market; (ii) deferring the purchases of foreign currency by buying 6-month forward contracts with cancellation at VND/USD 23,125 instead of 3-month terms as before; (iii) reducing the frequency of purchasing foreign currency from daily to once a week on Wednesdays.

Interbank interest rates (%)



Source: SBV

The gap between the domestic and world gold prices widened

While gold continuously depreciated on the world market in Q1/2021, domestic gold prices held relatively steady, widening the gap between domestic and world gold prices. The gap peaked at VND 8.2 million/tael on March 8, 2021. Domestic gold prices slightly advanced in January, then dipped in February and March. At the end of Q1, domestic gold prices were VND 54.1 million/tael, 2.61% lower than those at the beginning of the quarter.

Domestic gold prices continuously differed markedly from world gold prices as supplies became scarce after the government tightened border controls to prevent the COVID-19 pandemic, while as an asset that holds value, gold demand continued to rise. This raises the question of whether a large part of increasing

Gold prices (mil. VND/tael)

Source: SJC, www.gold.org

domestic gold demand was previously met through unofficial gold import channels.

Capital and Money Market

Credit growth varied across sector

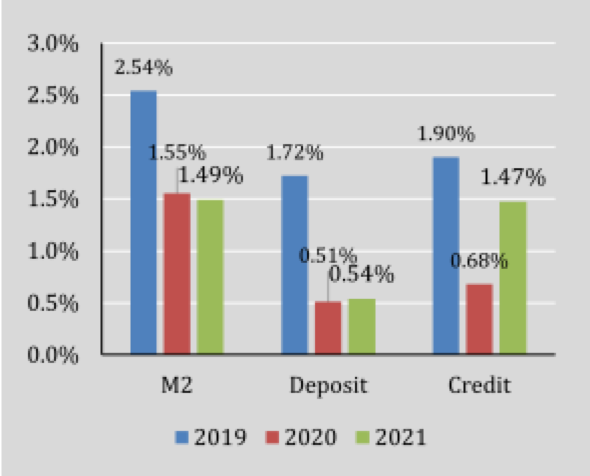
Interbank interest rates suddenly surged in early February 2021, with the overnight rate peaking at 2.86% on February 8 and the one-week rate peaking at 3.66% on February 9. However, this is only a seasonal phenomenon due to the skyrocketing cash demand on the Tet holiday. Indeed, interbank rates quickly levelled off after the Lunar New Year, fluctuating between 0.25 - 0.30% for overnight rates and 0.35 - 0.50% for one-week rates.

M2 money supply growth in Q1/2021 was 1.49% compared to the same period in 2020, lower than the growth rate in 2020 (1.55% (yoy)). The money supply is expected to continue to grow as Vietnam continues to set the goal of increasing foreign exchange reserves and expanding monetary policy towards supporting growth. Compared to the same period in 2020, deposit growth reached 0.54%, higher than the rate of Q1/2020.

Credit growth showed positive signs, hitting 2.93% (qoq) and concentrating in production and priority sectors such as agriculture, forestry, and fishery (going up by 2.42%) and industry (going up by 3.04%). The high-risk industries saw different growth trends. Specifically, real estate credit jumped 3% compared to the end of 2020, reaching VND 1.85 million billion by the end of the quarter, while credit into the securities sector dropped marginally by 1% to VND 45,300 billion, and BOT and traffic BT credit decreased insignificantly by 0.15% to over 108,000 billion VND. Consumer credit reached nearly 1.87 million billion at the end of the quarter, a climb of 1.2% compared to the end of 2020.

Monetary support policies in 2020 have left a relatively considerable side effect: credit does not flow directly into production but mainly into consumption channels of imported goods and trading assets such as securities and real estate. Although consumer prices stay relatively stable, the asset bubble (besides bad debt) is a worrying risk as long as monetary

Growth of M2, deposit, and credit in the first three months, 2019 – 2021 (%)



Source: GSO

policies are loosened. It can be said that the manufacturing sector is not the main beneficiary of the advantages of the current expansionary monetary policy.

The corporate bond market showed signs of cooling off

In the bond market, the total value of issued government bonds in Q1 was VND 39,205 billion, accounting for 39% of the quarter plan and 11% of the year plan. In particular, foreign investors net bought VND 1.7 trillion.

On the other hand, the corporate bond market showed signs of cooling off after the legal framework underwent significant amendments towards tightening regulations. As of February, the cumulative value of issued corporate bonds was VND 15,562 billion, declining by 19.6% over the same period in the preceding year, of which the value of separately issued bonds was VND 11,428 billion. The decrease was attributable to the changes under Decree No. 81/2020/ND-CP on "amending and supplementing a number of articles of Decree No. 163/2018/ND-CP dated December 4, 2018, on corporate bond issuance," which officially came into effect on September 1, 2020. Specifically, the trading of corporate bonds issued in the domestic market is restricted to fewer than 100 investors, excluding professional securities investors, within one year from the date of the issuance, except for special cases. After the time mentioned above, corporate bonds can be traded without any limitation on the number of investors unless the issuing company decides otherwise. Corporate bonds issued to the global market comply with the transaction regulations of the issuing market.

This Decree is issued to provide a healthy and low-risk environment for investors to participate and increase their investment in the corporate bond market. At the same time, it aims to control the hot growth of the corporate bond market and avoid affecting the stability of the bond market.

ECONOMIC PROSPECTS AND POLICY IMPLICATIONS FOR 2021

The global economy has shown signs of recovery with confidence boosted by the COVID-19 vaccination, but growth remains uncertain and diverges between countries and economic sectors. Of all developed countries, the U.S. and China were the two countries marked with the most prominent recovery in late 2020. On the other hand, the European economies are at high risk of returning to economic slowdown due to the sluggish transformation in economic structure, slow vaccination progress, and worsening disease situation in late March. Japan's economy in Q4 showed a recovery, while other countries in BRICS and ASEAN-5 continued to weaken and recorded negative growth.

Vietnam's economy in Q1/2021 grew at 4.48% (yoy), the same growth rate as the previous quarter. Factors that could support growth included effective 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 favourable 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 significant 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 labour quality; inefficient public investment and rapacious public apparatus; the delay of the SOE equitization 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. The establishment of the new Party-State leadership apparatus, with the new government, promises a dynamic economic outlook in 2021 and beyond. In addition, 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.6,0 and 6.3%. Although inflation has not become a threat to the macro-economy, risks continue accumulating. In particular, the asset market shows numerous signs of bubble formation, which are likely to bring risks to the credit system and economy.

Policy notes

Social security policies are still the top priority and need to proceed quickly and with the right people to prevent them 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 accessing supportive policies. Meanwhile, 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 companies 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.

In 2021, Vietnam's major trade partners, such as the U.S. and China, are expected to see a significant recovery, promising copious advantages for exports.

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 caused by the decline in credit demand pushes the flow of savings out of banks at a faster pace. Besides, when price increases in asset markets are significant 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, creating further difficulties for the 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 a few 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 five-year term of Party-State leadership, which is expected to mark new policies and specific actions to promote socio-economic development. At the same time, internationally, the United States has already inaugurated its 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 appropriate policy in the current context is supply-side policies which aim to reinforce 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 has 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., all need to resume with a new spirit and dynamic.

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

Danh mục từ viết tắt

ADB	Asian Development Bank
APP	Asset Purchase Package
BEA	Bureau of Economic Analysis
BoJ	Bank of Japan
CARES	Coronavirus Aid, Relief, and Economic Security Act
CEIC	CEIC Data
CNY	Chinese Yuan
CPI	Consumer Price Index
EA	Euro area
ECB	European Central Bank
EU	European Union
EUR	Euro
EVFTA	EU-Vietnam Free Trade Agreement
FDI	Foreign Direct Investment
Fed	Federal Reserve
FFCRA	Family First Coronavirus Response Act
FRED	Federal Reserve Economic Data
GBP	Great British Pound
GDP	Gross Domestic Product
GDVC	General Department of Vietnam Customs
GSO	General Statistics Office
IMF	International Monetary Fund
IPA	Investment Protection Agreement
JPY	Japanese Yen
SBV	State Bank of Vietnam
NMI	Non-Manufacturing Index
OECD	Organization for Economic Co-operation and Development
PEPP	Pandemic Emergency Purchase Program
PMI	Purchasing Manager Index
PPP	Paycheck Protection Program
qoq	quarter-on-quarter
TFSME	Term Funding Scheme with additional incentives for SMEs
USD	The United State dollar
VCB	Vietnam Bank of Foreign Trade
VEPR	Vietnam Institute for Economic and Policy Research
VND	Vietnam Dong
WB	World Bank
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: Phạm Thế Anh, Hà Kiều Trinh, Nguyễn Anh Thu, Nguyễn Quốc Việt.

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Additional disclosures

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