



NATIONAL CENTER FOR SOCIO-ECONOMIC INFORMATION AND FORECAST

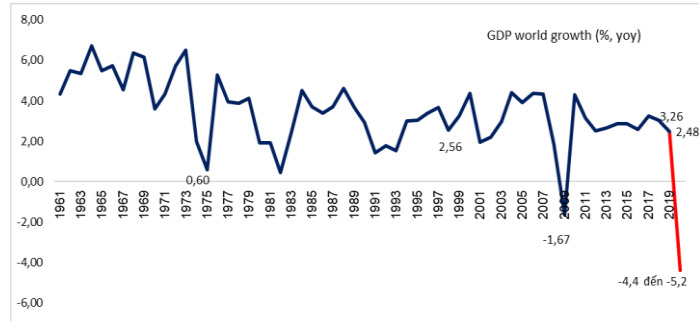
VIETNAM'S ECONOMY IN 2020 AND PROSPECT OF RECOVERY IN 2021 - 2025

Hanoi, January 2021

VIETNAM'S ECONOMY IN 2020 IN THE CONTEX OF COVID-19 PANDEMIC

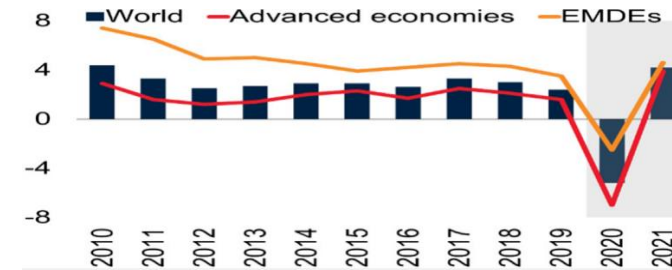
Global economic recession

Covid-19 exacerbated the growth downgrade



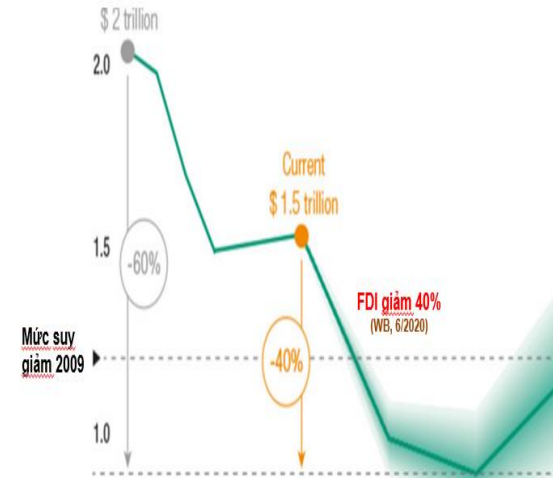
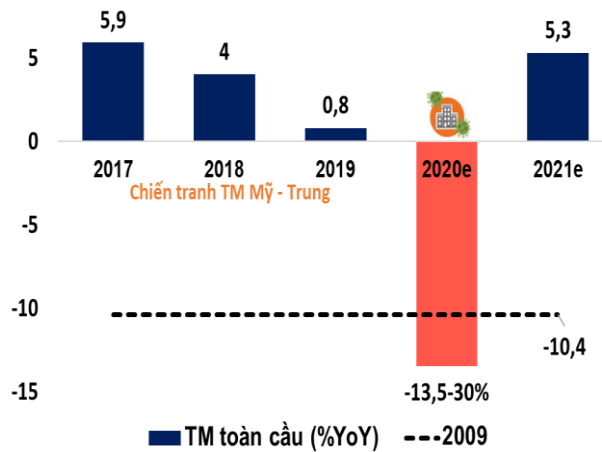
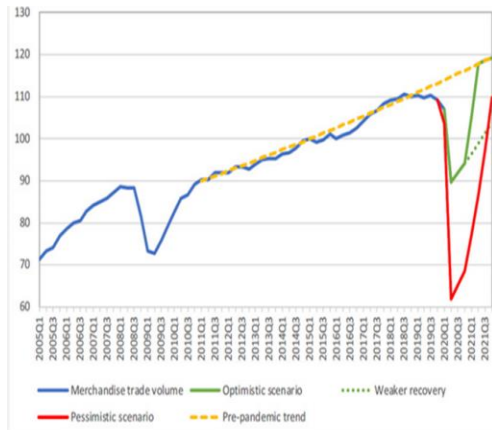
IMF & WB

GDP declined more amid Covid-19 than for other crises



Disrupted value chain and supply chain, declined trade and investment, decreased international investor confidence

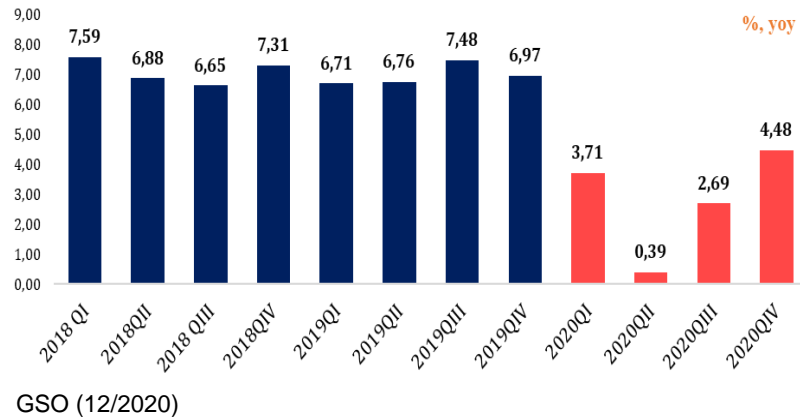
World trade fell sharply



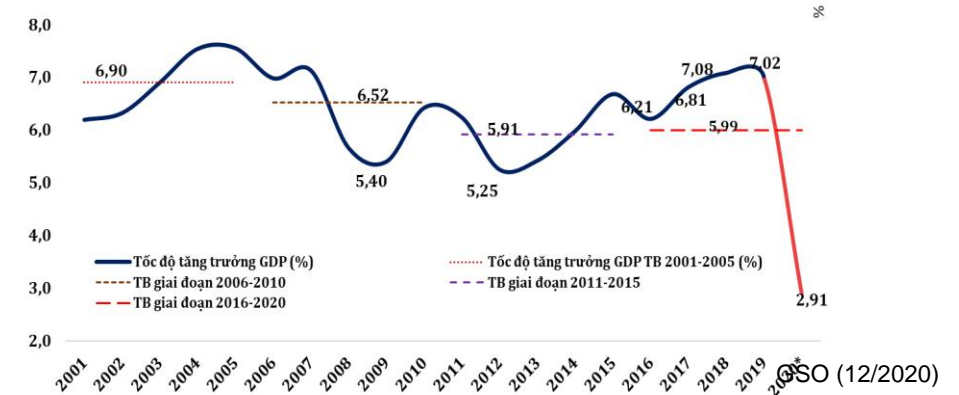
WB: 6&9/2020

Low economic growth but remarkable resilience

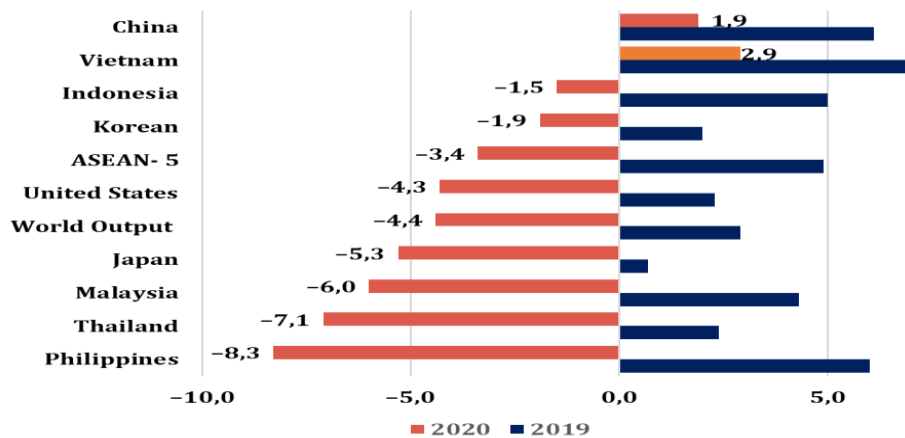
GDP slipped to 30-year low



Targets in 2020 and 2016-2020 period have not been achieved

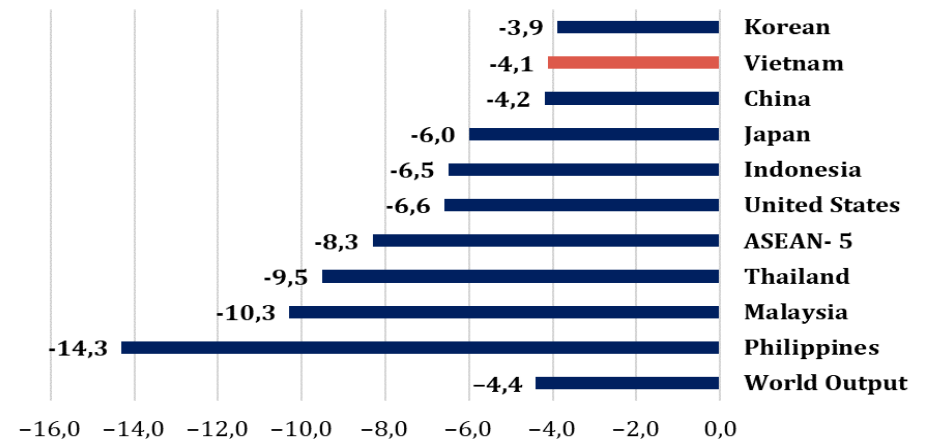


However, compared to other countries...



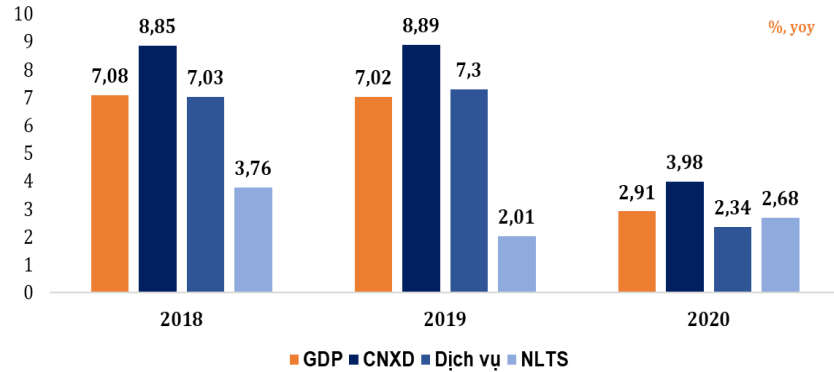
GSO (12/2020) & IMF (10/2020)

...The decrease in GDP growth compared to 2019 is lower (percentage point)

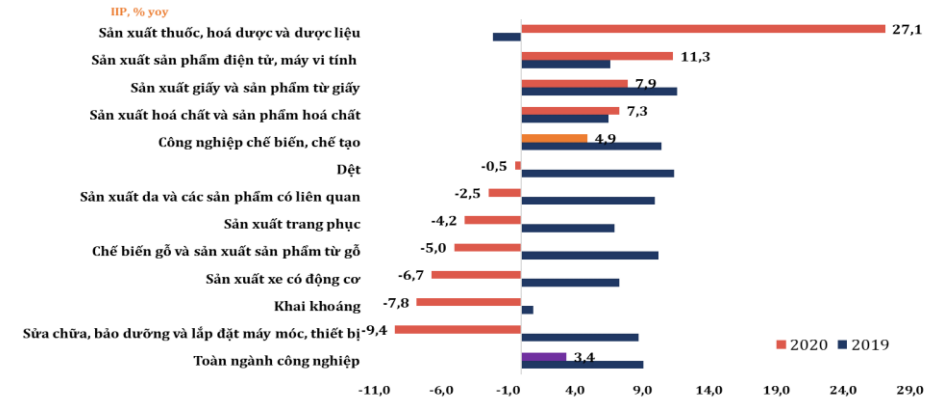


Supply side: Decline in industry and construction, enterprises faced difficulties

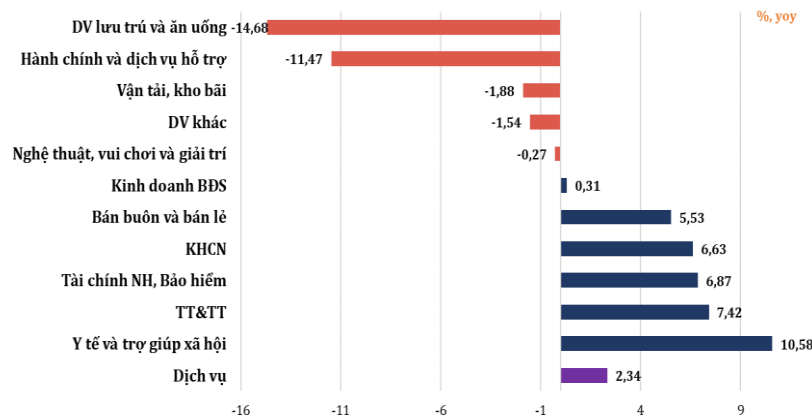
Agriculture is less affected while services was hit hardest



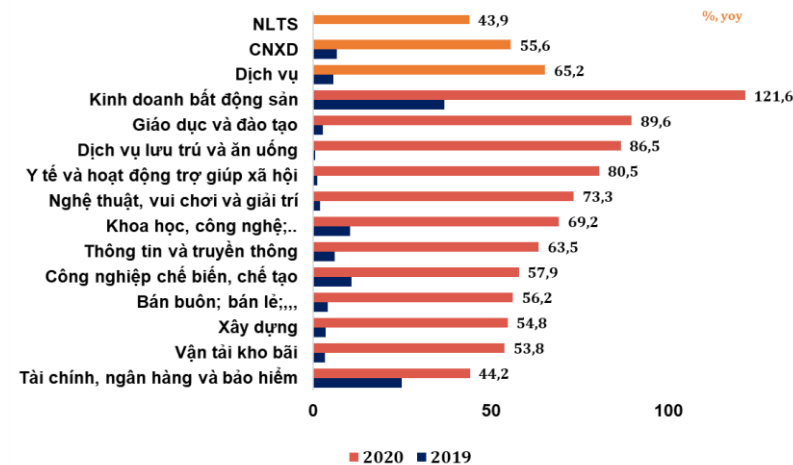
Manufacturing increase slightly. Textile, footwear reduced due to decrease in export



Accommodation, food, transportation, support services fell sharply, healthcare, banking, information and communication grew well



Enterprises that suspended operations increased by 1.5 times in most sectors

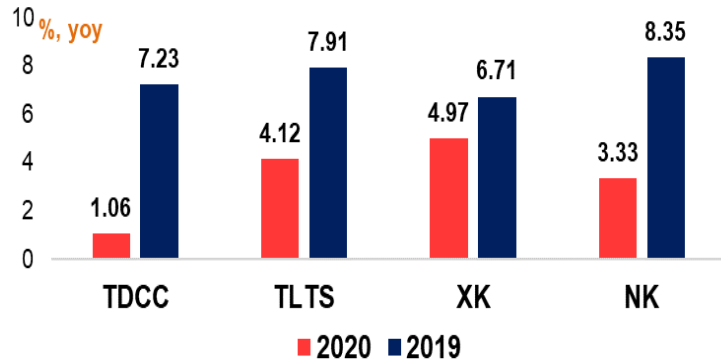


- Pandemic affected both employment and operation of enterprises
- Revenues loss was about 27%, employment was 20% lower
- Supply sources of more than 50% enterprises were affected
- 2/3 enterprises experienced cash flow shortage

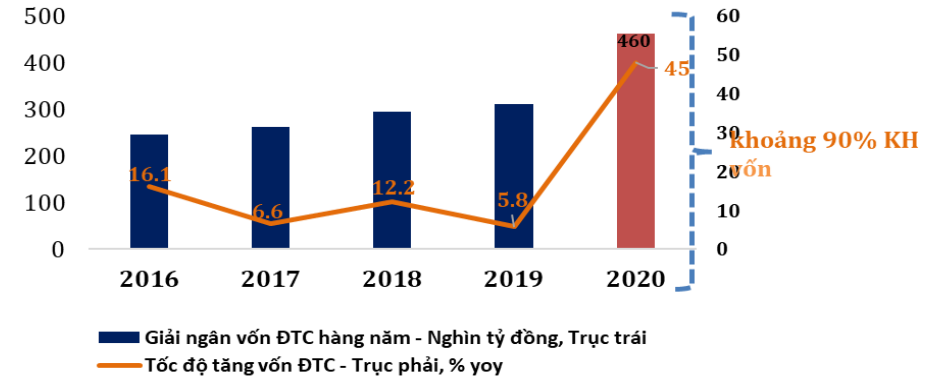
(WB,9/2020):

Demand side: Public investment, export, domestic consumption

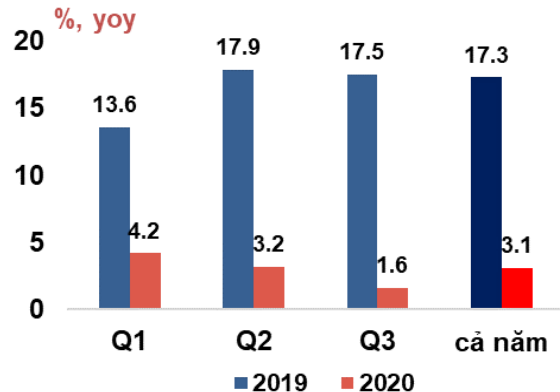
Demand side factors



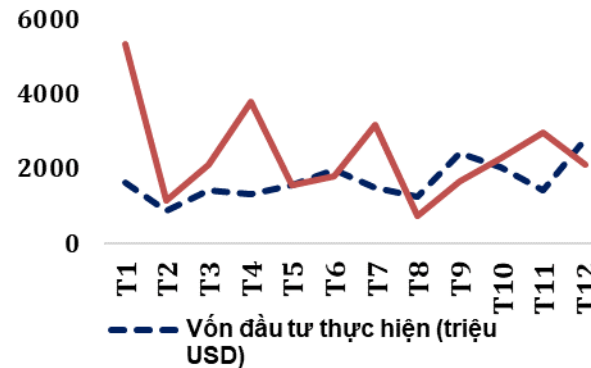
Public investment was driver of growth, GDP increased by 0.45%...



Private investment decreased accompanied with difficulties of enterprises



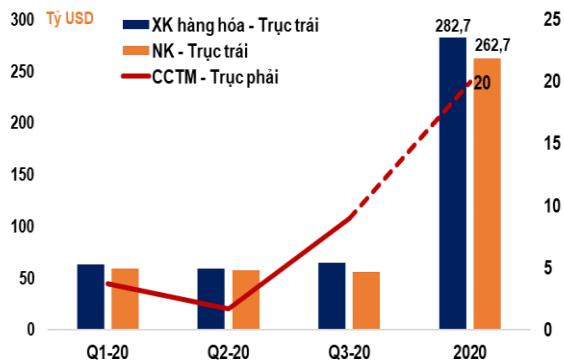
FDI declined but slower than global and regional level



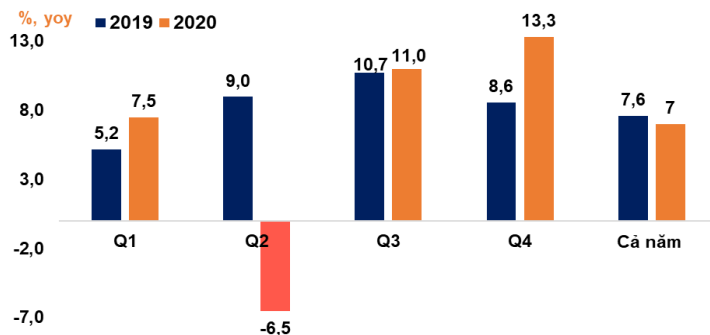
- FDI flow shifted away from China;
- Trade war and COVID-19 accelerated capital shift
- Other signs: Exports of some products to the US surged following presence of Chinese and Hongkong investors

Demand side: Record trade surplus, positive export growth...

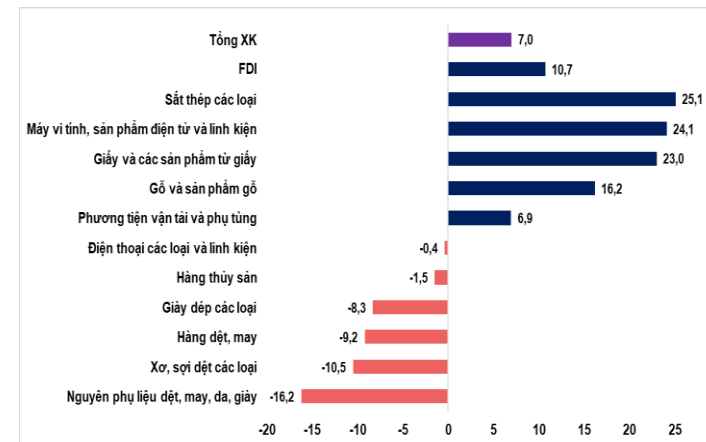
Export and trade surplus



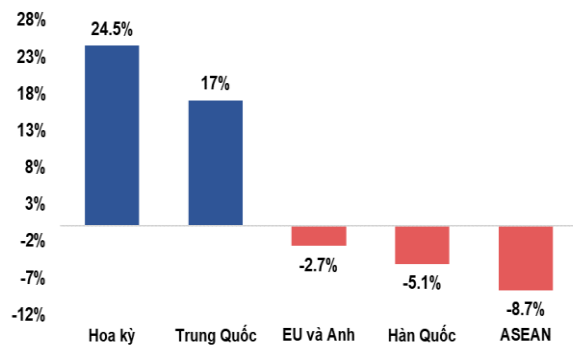
Export increased slightly despite of obstacles from partner markets



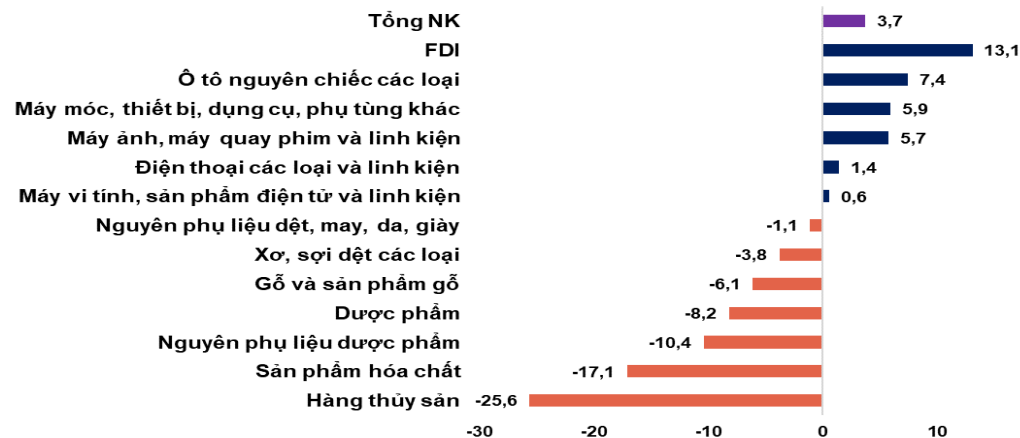
Export fell sharply in textile while increase significantly in wood, electronic, iron and steel



Export to the EU increased strongly to the US and China, showed positive signs thanks to EVFTA

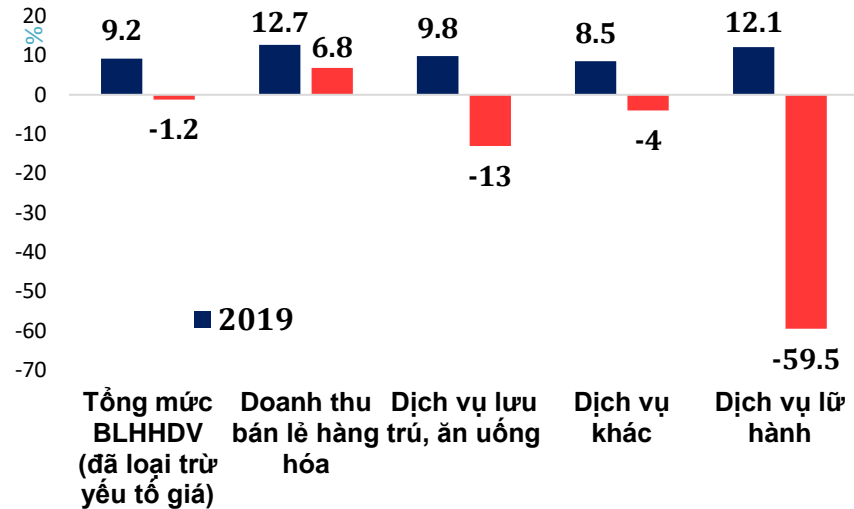


Import of inputs decreased

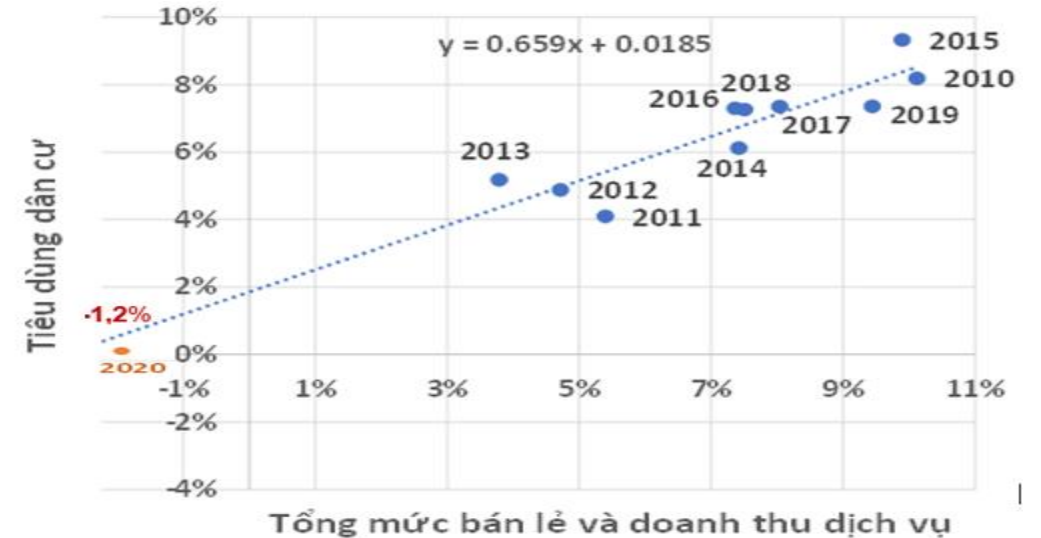


Demand side: Significant decrease in domestic consumption...

Gross retail sales of good and services declined

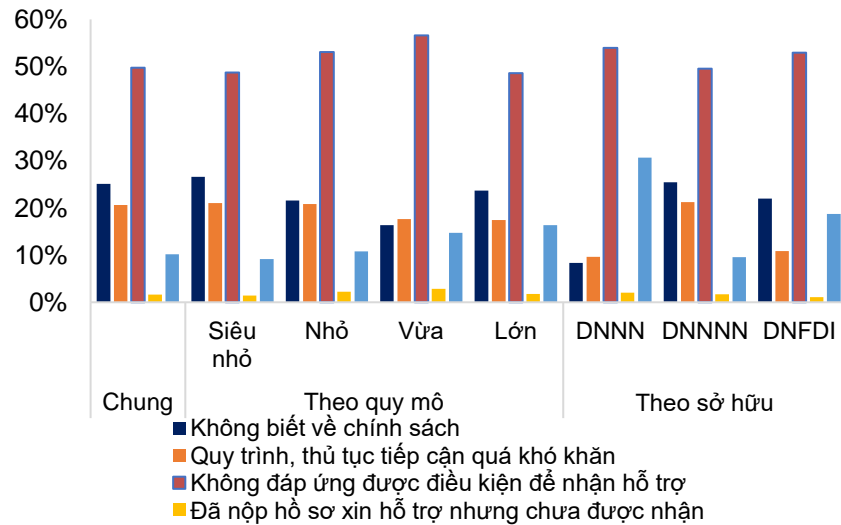


Correlation between gross retail sales of good and services and private consumption



Impact of support packages is limited

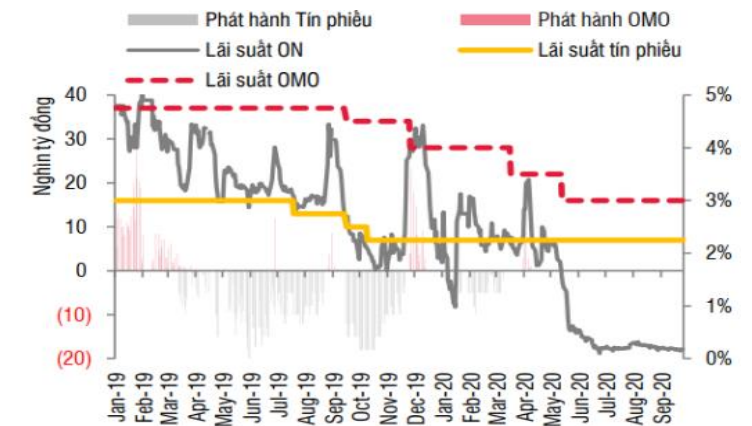
Three main reasons for not receiving support of 82% surveyed enterprises:



GSO, 9/2020

62 trillion VND support package is too low to disbursed as beneficiaries are difficult to determined

Interest rate fell sharply but not enough to stimulate borrowing



Monetary policies

- Mainly support existing clients, not create new demand
- The effectiveness of management tools reached the threshold (interbank interest rate is very low)

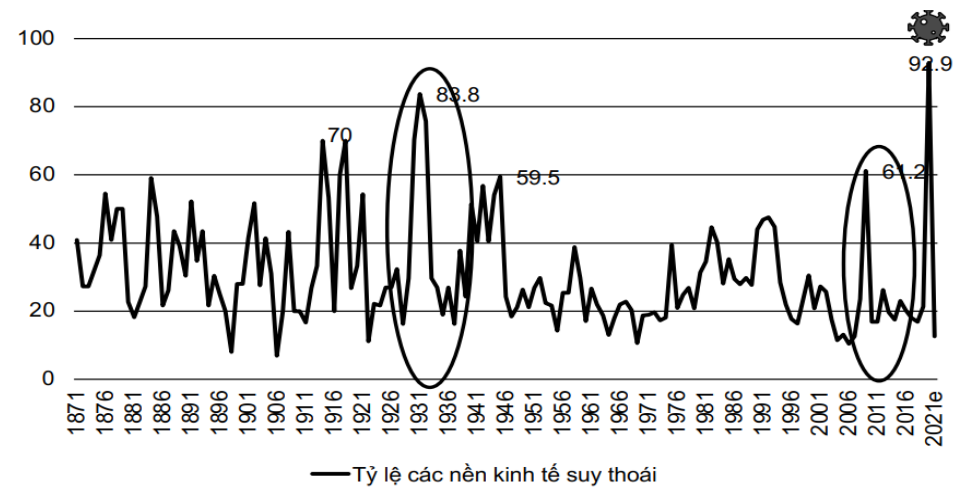
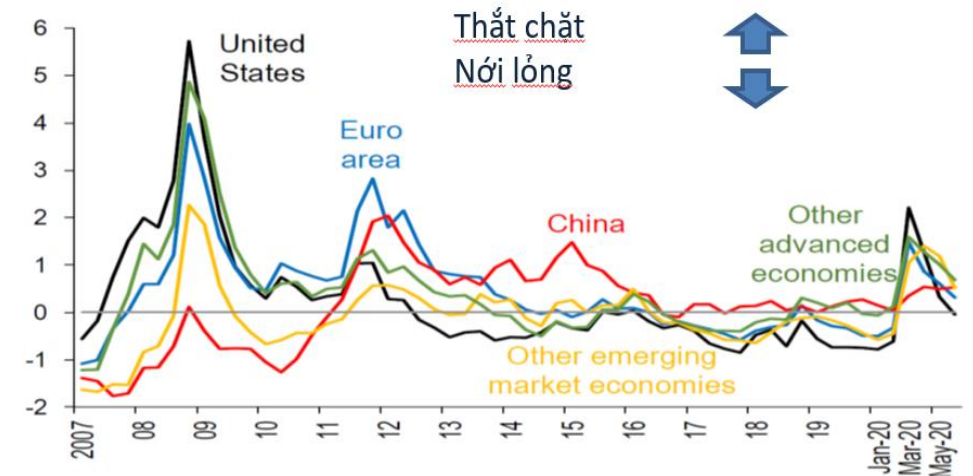
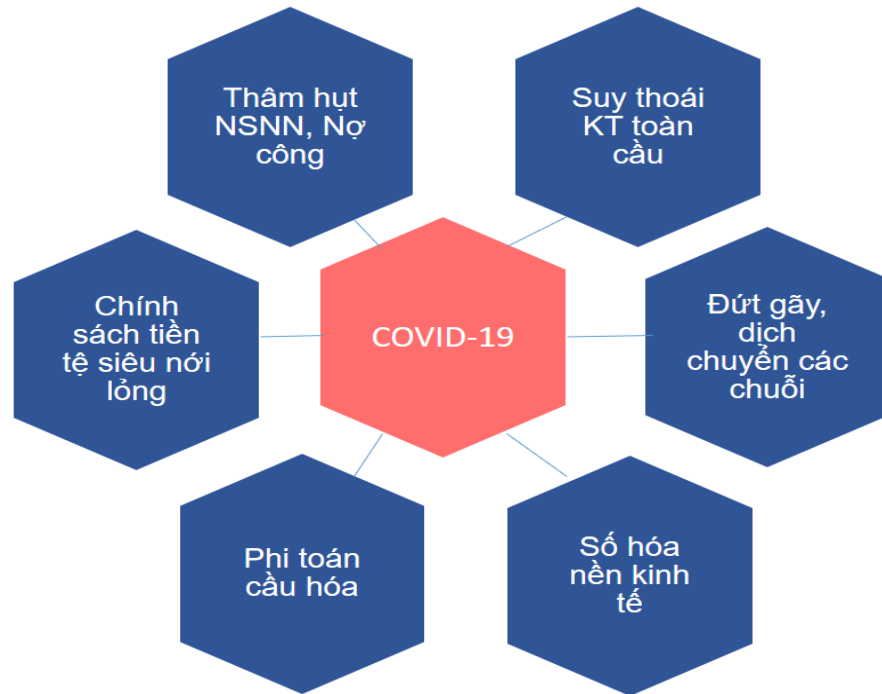
Fiscal policies

- Support at small scale (only 43 trillion VND for tax extension and land rent, instead of estimated 180 trillion VND)
- Disbursement of 62 trillion VND support package is difficult

- 30% corporate income tax reduction for small enterprises (15.5 trillion VND)
 - Enterprises with profits: Supported
 - Enterprises with no profit due to Covid-19: not supported
- Reduction of some fee (negligible impact)
- Tax payment extension
 - Actual benefit is equivalent to saving interest (4%) on deferred tax (5 months)
- Increase family curcumtance deduction (10.8 trillion VND)

World economic outlook in 2020

Covid-19 has changed major trends



Vietnam economic outlook in 2020

➤ **Declining economic growth due to supply and demand shocks:**

- **Supply side:** production was hindered by social isolation; supply chains were disrupted
- **Demand side:** Consumers cut down on spending because of unemployment, underemployment or reduced income
 - Enterprises cut their investment when facing less positive economic prospects and financial difficulties
 - Weak export demand due to economic slowdown in partner economies

➤ **Promoting new economic activities:**

- E-commerce (logistics, electronic payment);
- Online services of healthcare, education, banking, government

➤ **Revealing limitations in management mechanism:**

- Appraisal and disbursement of public investment
- Lack of updated and reliable information system
- Cumbersome, inflexible and ill-timed administrative procedures
- Lack of economic institutions and policies to cope with large and sudden changing

Adjustments and prospect of recovery, 2021 - 2025

Vietnam economic prospect in 2021: Opportunities, risks and challenges

- **Being success in stopping the spread of Covid-19 and maintaining macroeconomic stability** are the foundation for economic recovery.
 - **Recovery of main partner economies** could contribute to increase in Vietnam export in 2021
 - **EVFTA, CPTPP, and RCEP** will positively contribute to Vietnam's recovery in 2021 and in the whole period 2021-2025.
 - **Vietnam is showing its "attraction" to international investors** with strong resilience, potential recovery post-covid and opportunities from FTAs.
 - **Take advantages of supply chain shift.**
 - **Private consumption and public investment** will still be drivers of economic recovery in 2021.
 - **Industry and services sectors may achieve higher growth** in 2021 thanks to recovery of consumer markets and supply sources.
 - **Manufacturing, wholesale and retail, transportation and warehouse** are able to recovery strongly under well-controlled Covid-19 condition.
 - **World economy and key partner economies** have not really get rid of difficulties, the recovery is facing uncertainty and risks.
 - **Covid-19 continues complicated and unpredictable.**
 - **Impacts of economic stimulus policies** are limited.
 - **Enterprises:** SMEs have been "exhausted" after long difficult period.
 - **Production recovery** of enterprises may take more time.
 - **Inflation pressure and macroeconomic instability**
 - **Sustainability of State budget** is threatened due to high spending.
- Growth scenarios for 2021 focus on five main issues:*** (i) Assumptions about Covid-19; (ii) Possibility of increasing export and FDI; (iii) Conditions that support the recovery of enterprises and private investment (including support packages, fiscal policies, monetary policies, recovery of partner markets, export orders); (iv) Disbursement of public investment; (v) Prospect of recovery of various sector

Adjustments in 2021-2025

- **World economic context:**
 - World economy is more uncertain and risky
 - Supply chains, GVCs, and trade flows will shift drastically toward more diversified direction
 - Trade protection and trade conflict tend to increase strongly
 - Digital economy, sharing economy are expected to develop faster.
- **Internal context:**
 - Requirement to innovate growth model is more urgent
 - Digital economy, e-commerce have opportunities to growth faster and become inpetus for growth.

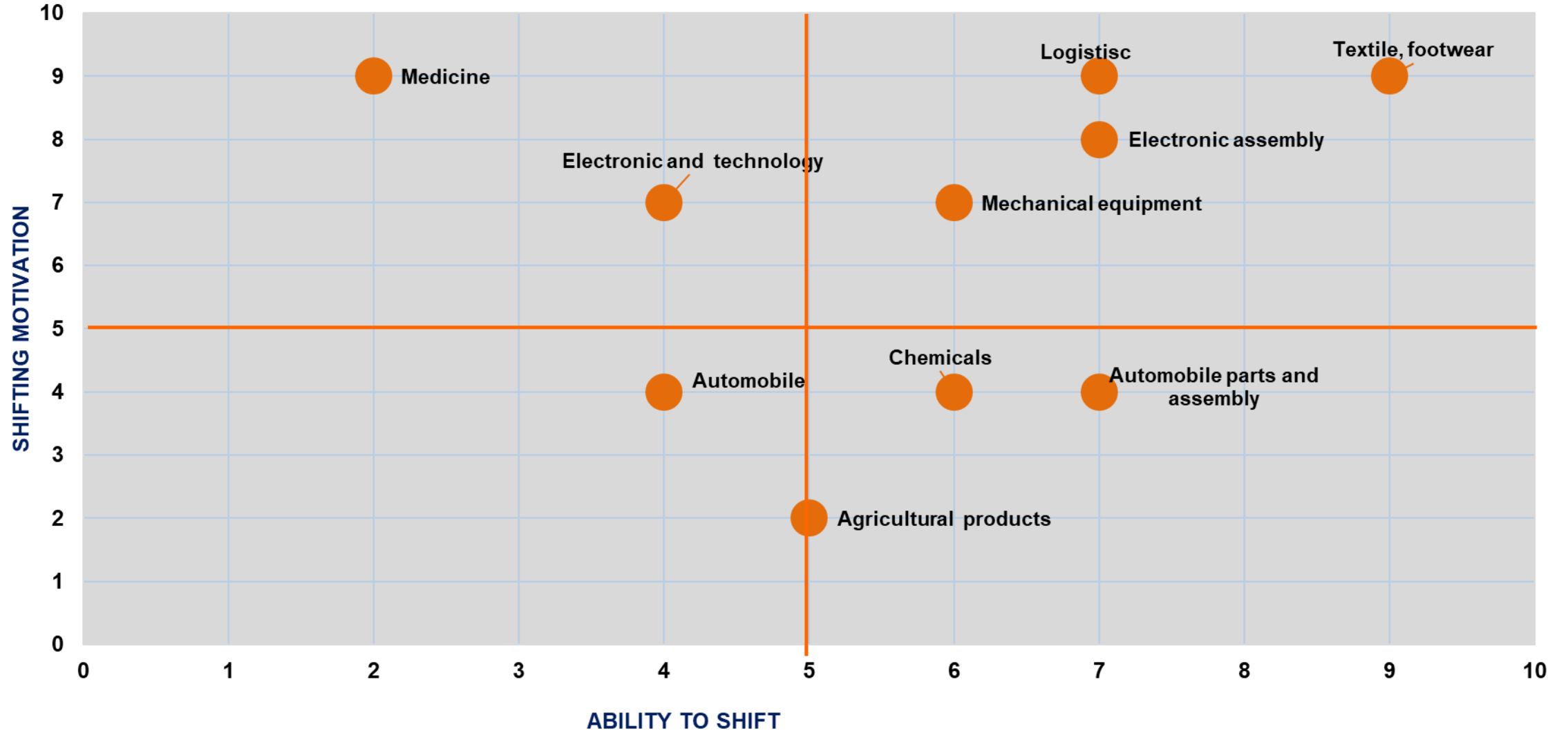
The future of supply chain

	<i>Reshoring</i>	<i>Diversification</i>	<i>Regionalization</i>	<i>GVC-replication</i>
Impact on international production	Shorter, less fragmented VCs; rebundling of supply chains, more concentrated VA; less offshoring, less outsourcing;	Continued fragmentation of supply chains; increased platform-based supply chain governance; increased offshoring and outsourcing of services. More concentrated value added	Shorter physical supply chains, but not less fragmented. More geographically distributed value added. Decentralized governance, outsourcing	Much shorter and less fragmented value chains, rebundling of production stages. Higher geographically distribution of activities, but more concentrated value added. Increased outsourcing
Main motivations	Technology (automation, robot), policy environment (post Covid-19 autonomy, develop and protect strategic industrial capacity).	Technology (automation, platform, AI, Blockchain); sustainable trends (post Covid-19 supply chain risk management; capacity to monitor chains).	Policy environment (regional integration; need for post-Covid-19 autonomy); Technology (digitalization) Sustainable trends (increase possibility to recover chains).	Automation and digitalization, 3D print; policy environment (productive capacity of key industries post Covid-19)
Key sectors	Hightech industries, industries engaged deeply in GVC; services.	Services and industries engage deeply in GVCs,	Regional processing industries, industries which engage deeply in GVCs, primary industries.	Spindle-based industries, regional processing industries.
Results	Reduce FDI, , divest and transfer investment; may increase NEM investment, reduce trade related to GVC.	Reduce FDI in assets, increase intangible assets; increase trade of services and data flows.	Increase intra-regional FDI, shift production Increase intra-regional trade	Reduce FDI; Increase trade of services, intangible assets, data flow and license fee Reduce trade related to GVC

Regional supply chain shift

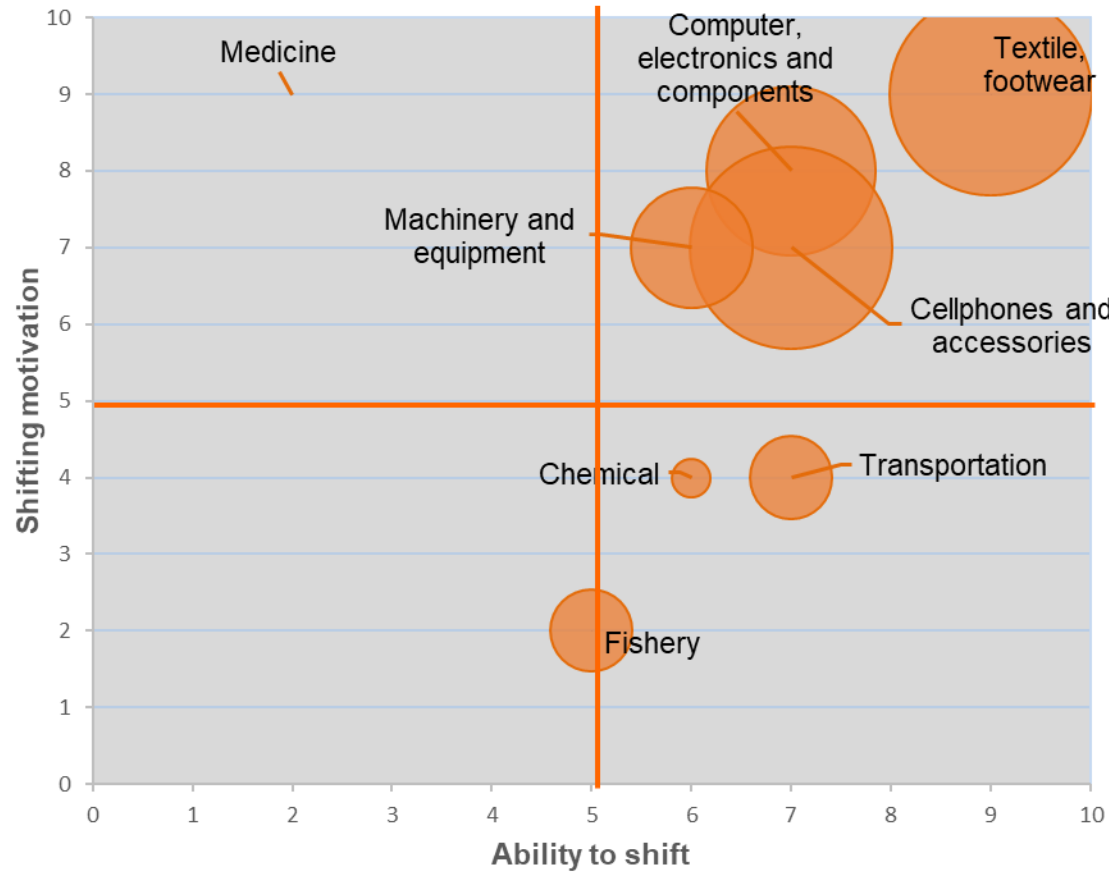
	Main trends	Motivations
Asia	<ul style="list-style-type: none"> - Production shift from China to low-cost countries (Southeast Asia, India and other South Asian countries); - Supply chain regionalization; - China attracts capital flows into technology industries; 	<ul style="list-style-type: none"> - Increase in China's labor cost; - Trade war, Covid-19; - Japan's policies to move away from China; - Regional FTAs (RCEP, CPTPP). - BRI initiative to connect regional infrastructure; - Technological progress, IR 4.0
America	<ul style="list-style-type: none"> - Reshoring; - Supply chain regionalization; - Formation of new technology supply chain. 	<ul style="list-style-type: none"> - US' policies to encourage enterprises to move away from China; - Us-China trade war; - Regional FTAs (USMCA); - Change in wage gap (China's salary has exceeded Mexico's). - IR 4.0
EU	<ul style="list-style-type: none"> - Supply chain regionalization. - Reshoring to increase supply chain resilience. 	<ul style="list-style-type: none"> - Regional supply chains has been firmly established thanks to efficient production system; large market; diverse resources. - High economic integrity (EU), despite Brexit; - Covid-19; - IR 4.0.

Supply chain shift by sectors

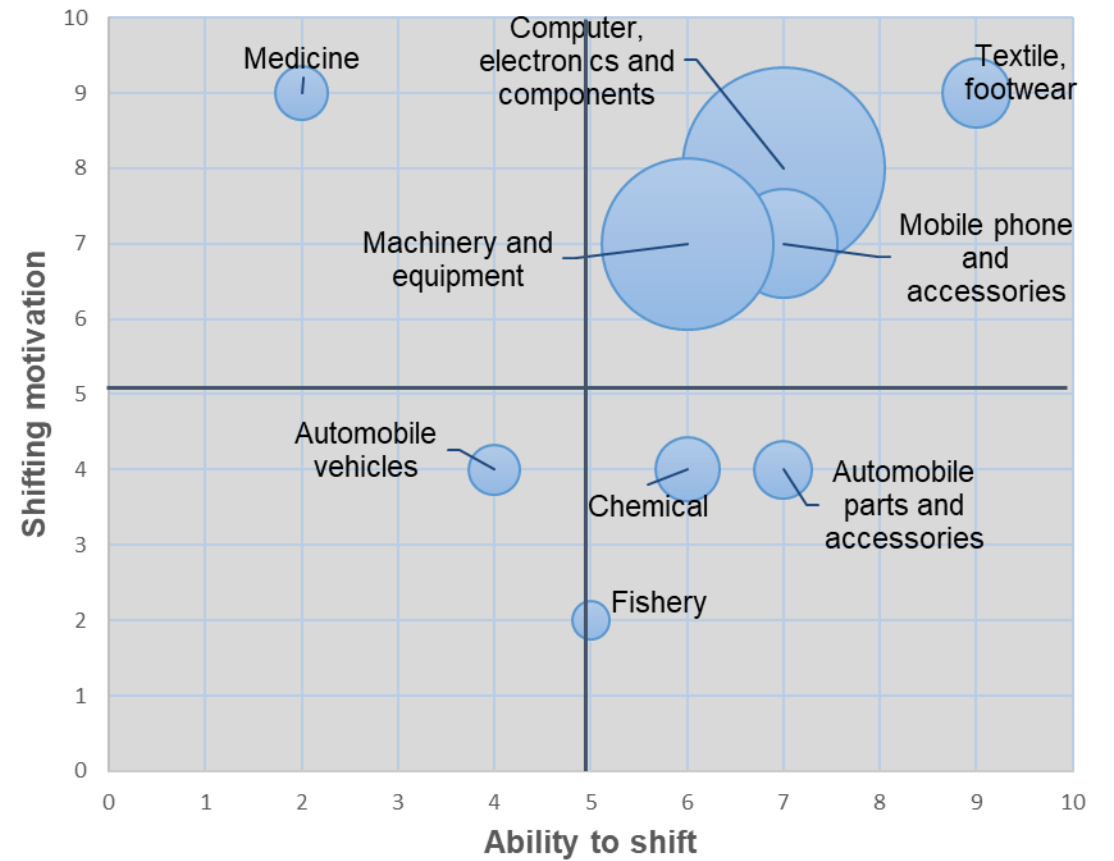


Opportunities gap

Motivation and ability to shift supply chain and Vietnam's export

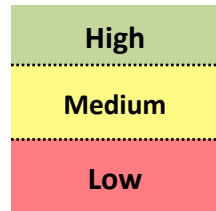


Motivation and ability to shift supply chain and Vietnam's import



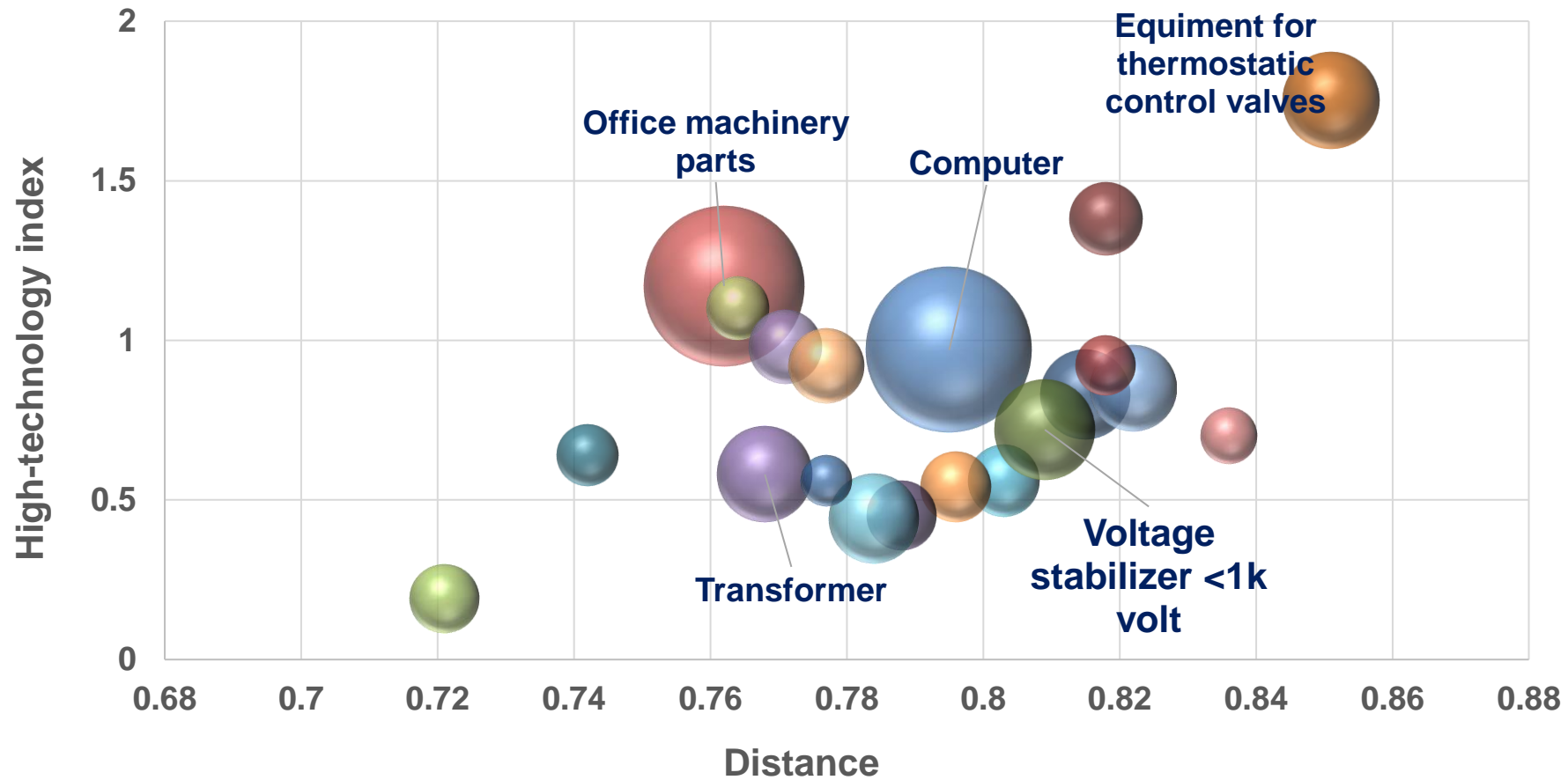
Ability to attract mid-range manufacturing

	Current mid-range manufacturing capacity/industrials clusters	Labor (Cost, readiness, flexibility)	Connectivity and accessibility to commercial offers	Business environment	National Risk (Political and economic)
China	High	High	High	High	Medium
Mexico	High	High	High	High	Medium
Vietnam	High	Medium	High	High	High
Central and Eastern Europe, excluding Romania	High	Low	High	High	High
Maroc	Medium	Medium	Medium	High	High
Turkey	Medium	Medium	High	High	Low
Thailand	Medium	Low	Medium	High	High
India	Medium	High	Medium	Low	Medium
Romania	Medium	Low	High	High	Medium
South Africa	Medium	Medium	Medium	Low	Low
Egypt	Low	Medium	Medium	High	Low
Saudi Arabic	Low	Low	Medium	High	Medium
Kenya	Low	Medium	Low	High	Low
Colombia	Low	Low	Medium	High	Low
Nigeria	Low	Medium	Low	Low	Low
Brazil	Low	Low	Low	Low	Low



Sources: Fitch Solutions (2020). Noted: high score means lower risk and more favorable in attracting supply chain shift.

Distance and high technology index



Sources: <https://atlas.cid.harvard.edu/>

Complication >0.14

Access targeted companies

Product	China's export (bil USD-%)	Global export (bil USD)	% The US's import (%)	Complication level	Imported companies in the US
Computer	130 (49%)	265	27%	0.97	Hp Inc C O Xpologistics (ca) Acer America Corporation (ca) Lenovo Mixed Bp (ca) Compal Electronics Inc Ior Care (tn) Qch Inc Computer (ca)
Office machines accessories and parts	90, (36%)	250	18%	1.17	Pegatron Computer Inc (tx) Cloud Network Technology Singapore (tx) Wiston Infocomm Technology (tx) Expeditors International Of Washington Inc Thermaltake Inc (ca)
Toys	28 (60%)	46	25%	0.19	Walmart Stores Inc (ar) Mattel Inc (ca) Melissa Doug Inc (ct) Costco Wholesale Corporation (wa) Ikea (ca)

Source: <https://atlas.cid.harvard.edu/>

China export > \$25bil, The US imports 15%, Gross global export> \$30bil

Economic growth in 2021 and adjustments for 2021 - 2025

❖ World economic context:

- **Baseline scenario:** world economy recovers, Covid-19 pandemic is gradually controlled. In this scenario, major economies like the US, EU, and Japan achieve positive growth again. Growth of the US is predicted to reach 3-3.5%, China growth is predicted 5-6%.
- **Optimistic scenario:** World economy recover faster. Global trade and investment recover strongly. In this scenario, China economy growth can reach 6-8%, The US economic growth can be more than 3.5%.

❖ Internal context:

- Scenarios associated with following assumption: recovery of export, domestic market; resilience of the economy; and recovery of bussiness and public investment..

Forecast of main macroeconomic indicators

	2020	2021	
		Baseline scenario	Optimistic scenario
I. GDP growth (%):	2,91	6,17	6,72
- Agriculture, forestry and fishery	2,68	2,70	2,97
- Industry and construction	3,98	6,64	7,22
- Services	2,34	7,23	8,17
- Product taxes less subsidies on production	2,4	4,75	5,19
II. Component of GDP(%):			
- Agriculture, forestry and fishery	14,27	13,72	13,65
- Industry and construction	34,2	33,61	33,67
- Services	41,7	43,23	43,26
- Product taxes less subsidies on production	9,8	9,45	9,42
III. CPI yoy (%)	3,23	3,8	4,2
IV. Productive investment/GDP(%)	34,4	32,72	33,18

Source: NCIF, 12/2020

Adjusting economic forecast, 2021 - 2025

		Est 12/2019		Est 12/2020		Adjustment (% point)	
		Baseline scenario	Optimistic scenario	Baseline scenario	Optimistic scenario	Baseline scenario	Optimistic scenario
GDP growth	Unit %	7	7,5	6,3	6,8	-0,7	-0,7
- Agriculture, forestry and fishery	%	3	3,4	2,9	3,0	-0,1	-0,4
- Industry and construction	%	8	8,5	7,2	7,4	-0,8	-1,1
- Services	%	7,4	8,05	6,5	7,0	-0,9	-1,05

Sources: NCIF, 12/2020

Policy implication in 2021

- Continue policies to exempt and reduce tax, fees; rental extension.
- Cut down business conditions and compliance costs; improve human resource quality in export industries to move up to higher level in value chain.
- Accelerate investment in digital infrastructure, provide digital services to people and enterprises in association with building e-government (population management, administration, employment).
- Accelerate disbursement for large-scale and pervasive transportation projects (such as highways, airports, seaports; industrial park infrastructure) right from the beginning of the year.
- Promote export to EU, especially key products like electronics and electronic components, textile, footwear, wood and wood products, seafood, vegetables, processed agricultural products.

Policy implication, 2021 - 2025

- Accelerate institutional reform and improve business environment
- Upgrade synchronously infrastructure, improve logistics system to attract and prepare to receive shifted capital flows
- Complete policies of developing industrial parks and export processing zones to form large-scale, modern and synchronous industrial zone to attract hightech projects in the electronics and automobile sectors. Promote the development of industrial clusters.
- Increase R&D efforts, develop human capital and encourage investment in upstream industries to increase productivity and competitiveness
- Support and accelerate digital transformation in business sector.



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Thank you for your attention