Econ note
09 Aug 2021

ECONOMIC UPDATE

Lower growth outlook as the evolution of pandemic

- Since mid-Jun, Vietnam has experienced a sharp pick-up in infection cases and strict social distancing protocols across nation.
- We revised down 2021F average inflation to 2.4% due to lower domestic demand and falling in prices of essential services
- We lowered FY21F GDP growth rate to 5.5% from the previous 6.5% in baseline scenario

The current wave casts a shadow on Vietnam's macro in July

The service sector was hit hard as stricter social distancing protocols have been imposed since Jul across country. According to the General Statistics Office of Vietnam (GSO), gross retail sales of consumer goods and services declined for third month in a row to VND339tn in July (-8.3% mom and -19.3% yoy). The IHS Markit Purchasing Managers' Index (PMI) of Vietnam in Jul stood at 45.1 pts, marking two consecutive months below 50 points. Index of Industrial Production (IIP) edged up only 2.2% yoy in Jul (vs. an increase of 6.8% yoy in Jun).

Several support policy packages were launched to ease the Covid burden

In Jul, the government issued Resolution No. 68/NQ-CP ("Resolution 68") on a number of policies to support employees and employers facing difficulties due to the COVID-19 pandemic, worth a total of VND26 trillion. Soon after, the government issued Resolution No. 83/NQ-CP to agree on a plan to reduce electricity bills (phase 4) for electricity users affected by the fourth outbreak. The total amount of reduction in phrase 4 is estimated at VND2.5 trillion. The government also plan to reduce water supply and telecommunications fees for customers affected by the pandemic.

We cut 2021F average inflation to 2.4%

The government will slash utility prices, including electricity, water and telecom for both manufacturers and households which will partially lower the inflation pressure for the rest of 2021. As a result, we lowered our forecast for 2021F average CPI to 2.4% (+/- 0.2 percentage points) from previous 2.9%.

We deliver two GDP growth scenarios

As the 2H21 outlook will be dictated by the duration and intensity of the current Covid wave, we delivered two scenarios for Vietnam's FY21F GDP growth. In the baseline scenario, we expect the fourth outbreak to be contained in Aug and forecast the economy to expand 5.5% yoy in 2021F. However, if the wave lasts longer, the pandemic's negative impact on the services sector would prolong and be exacerbated; therefore, Vietnam's 2021F GDP growth could slow to 5.0% yoy.

Figure 1: Summary of macro forecasts in 2021 – 22 (in base case scenario)

Indicator	Unit	2018	2019	2020	2021F	2022F
Real GDP growth	% yoy	7.08	7.01	2.91	5.48	7.12
Export growth	% yoy	13.3	8.4	6.5	16.6	11.0
Import growth	% yoy	11.8	6.9	3.6	21.0	10.6
Trade balance	USD bn	6.9	10.9	18.9	10.5	12.9
Current account to GDP	% of GDP	1.9	3.8	3.7	1.5	1.9
CPI (period average)	% yoy	3.5	2.8	3.2	2.4	3.4
Credit growth	% ytd	13.9	13.7	12.1	13.0	13.0
Credit to GDP	% of GDP	103.9	107.1	115.7	121.6	124.9
Refinancing rate	%	6.3	6.0	4.0	4.0	4.25-4.5
Exchange rate (USD/VND)	% yoy	1.8	1.4	0-1.0	+/-0.5	0-1.0

Source: VNDIRECT RESEARCH, GSO, SBV

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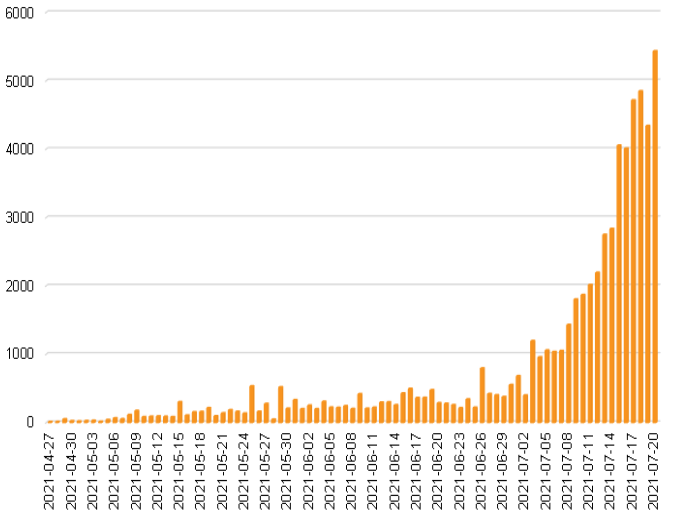
VIETNAM MACRO SNAPSHOT IN AUGUST 2021

Vietnam is facing the worst outbreak so far

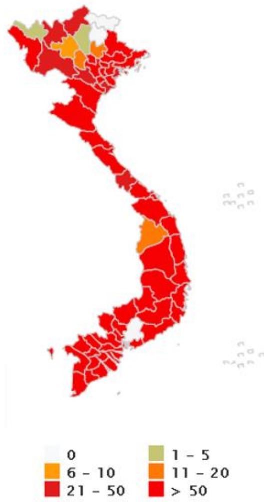
Since the outbreak on 27 Apr, Vietnam has recorded 157,919 new local cases (data as at 02/08/2021), equivalent to 55 times total cases of three previous outbreaks. The number of new local cases per day reached 8,000-9,000 cases/day, compared with just a few dozen cases per day of three previous outbreaks.

Figure 2: Daily new cases since the fourth outbreak of COVID-19 infections in Vietnam



Source: WHO, VNDIRECT RESEARCH

Figure 3: Coronavirus spread across the country (total confirmed cases, per province)



Source: WHO, VNDIRECT RESEARCH

The Vietnamese government has taken drastic steps to curb the spread of the fourth wave. All 19 provinces and cities in Southern Vietnam have been ordered to apply social-distancing rules under Directive 16 since 19 Jul. Hanoi, the capital city, has also applied social-distancing rules under Directive 16 since 24 Jul. Before that, Ho Chi Minh city implemented social-distancing measures according to Directive 15, Directive 10 and then Directing 16 for nearly 50 days. The Ministry of Health has set up many field hospitals across the country and sent the most experienced medical staff to southern Vietnam to fight the virus. In addition, government and localities have stepped up vaccination, especially in the southern provinces, to prevent the spread of coronavirus and achieve community immunity against coronavirus as soon as possible.

Vaccination rate against coronavirus in Vietnam is still low. About 9.1% of the Vietnamese population has received at least one dose of a COVID-19 vaccine, and only 1.0% is fully vaccinated. Vietnam has accelerated vaccine deployment recently, with half of million doses (including AstraZeneca, Moderna, Pfizer and Vero Cell) being injected per day. The government has set a target for at least 50% of people (aged 18 and over) to be vaccinated against coronavirus in 2021. By the end of the first quarter of 2022, over 70% of the population would be vaccinated. In addition, Vietnam is conducting clinical trials of domestically produced vaccines. The best candidate is Nanocovax, which has completed Phase 2 trials. Nanocovax is currently in Phase 3 trials and is being considered for emergency use by the Ministry of Health.

With these strong moves, we believe Vietnam would be able to defeat the fourth wave of Covid-19 within the next one to two months, just as it had successfully fought against the three previous outbreaks.

The government started implementing several support packages in order to ease the Covid burden

On Jul 1, the government issued Resolution No. 68/NQ-CP ("Resolution 68") on a number of policies to support employees and employers facing difficulties due to the COVID-19 pandemic, worth a total of VND26 trillion. Soon after the issuance of Resolution 68, Decision No. 23/2021/QD-TTg was also released to provide detailed guidance on necessary steps to implement the policies in Resolution 68. Specifically, this policy focuses on supporting workers directly affected by the fourth outbreak, such as in industrial parks and in enterprises that are temporarily closed or live in quarantine zones due to the fourth outbreak. The policy consists of three basic groups, including: direct support in cash for workers whose contracts or their jobs are suspended; support policies related to insurance and support policies for businesses to restore production.

On Jul 31, the government issued Resolution No. 83/NQ-CP to agree on a plan to reduce electricity bills (phase 4) for electricity users affected by the fourth outbreak. Accordingly, the government requested to reduce electricity bills in two months (Aug and Sep 2021) for customers using electricity in localities that are implementing social-distancing measures in accordance with Directive No. 16/CT-TTg. The total amount of reduction in phrase 4 estimated at VND2.5 trillion.

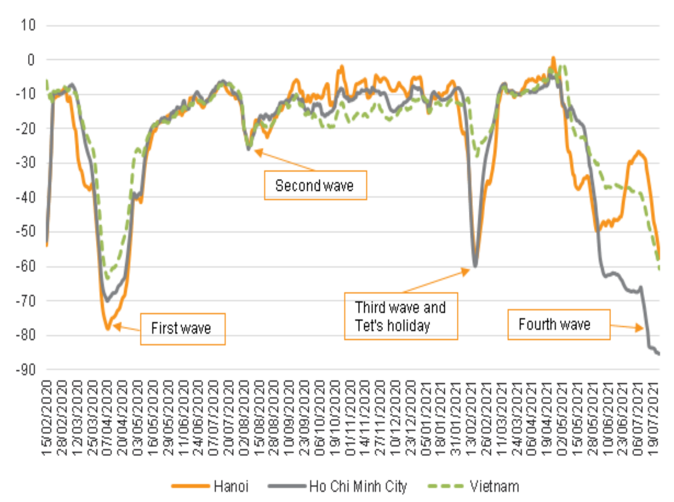
On Aug 1, the government office issued a document on Deputy Prime Minister Le Minh Khai's instruction regarding the reduction of water supply and telecommunications fees for customers affected by the pandemic. Following this, the telecommunication providers, including Viettel, VNPT, Mobifone, CMC, FPT, Vietnamobile and SCTV, have agreed to offer support packages for telecommunications customers, totaling VND10 trillion.

In addition, the Ministry of Finance (MOF) is studying and proposing an additional tax and fee support package for businesses heavily affected by the COVID-19 pandemic, is estimated at VND24 trillion.

These supportive policies will help businesses and employees overcome the current difficult period caused by the COVID-19 pandemic and create foundation for recovery after the fourth outbreak is totally contained. Besides, the reduction in prices and fees of essential services such as electricity, water, and telecommunications will help curb inflation for the rest of 2021.

The current wave casts shadow on Vietnam's macro in July

Figure 4: Google mobility for retail and recreation in Vietnam (7 days moving average)



Source: GOOGLE, VNDIRECT RESEARCH

Figure 5: Google mobility for workplace in Vietnam (7 days moving average)

Source: GOOGLE, VNDIRECT RESEARCH

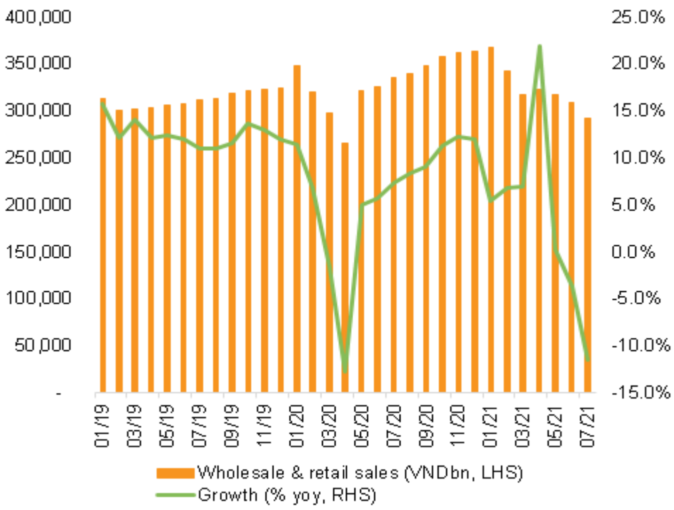
Several provinces and cities have applied aggressive social distancing measures under Directive 16 to slow the spread of the coronavirus. These measures played an important role in fighting Covid-19 but they also negatively impact on economic activities in the short term.

The service sector was hit hard by the fourth outbreak. Gross retail sales of consumer goods and services witnessed the third consecutive month of decline, falling to VND339,362bn (-8.3% mom and -19.3% yoy). To be specific, all aspects of the service sectors suffered in Jul when the COVID-19 pandemic spread across the country. Retail sales slid 5.5% mom (-11.4% yoy) as domestic demand slumped. Furthermore, the revenue of accommodation and catering services fell 22.4% mom (-53.8% yoy) while the revenue of traveling service dropped 5.5% mom (-92.6% yoy) amid the temporary shutdown of nonessential services in many provinces. We consider that impact of the fourth outbreak on service sector would be comparable to the impact of the first outbreak when Vietnam applied three-week nationwide lockdown.

For 7M21, gross retail sales of consumer goods and services edged up only 0.7% yoy (vs. an increase of 4.4% yoy in 6M21 and a 1.6% decline in 7M20). If excluding the price factor, this figure declines 0.7% yoy (that in the same period in 7M20 decreased by 4.8%).

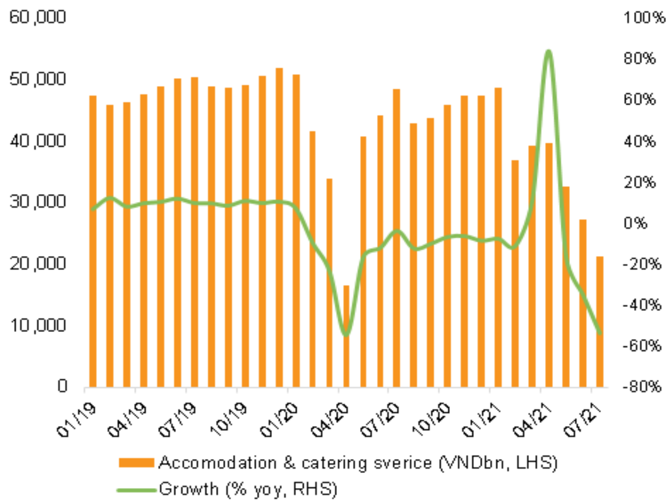
We expect revenue of the service sector to remain low in Aug due to more aggressive social-distancing measures applied across the country to prevent the spread of the 4th wave of COVID-19 infection.

Figure 6: Wholesale & retail sales slumped further in Jul



Source: GSO, VNDIRECT RESEARCH

Figure 7: Revenue of accommodation and catering service plummeted amid the 4th wave of COVID-19



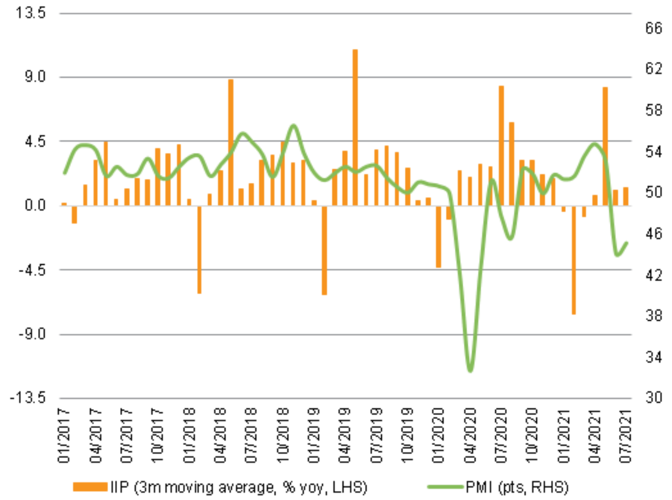
Source: GSO, VNDIRECT RESEARCH

Regarding the industrial sector, the IHS Markit Purchasing Managers' Index (PMI) of Vietnam in April stood at 45.1 pts, marking the second consecutive month the index fell below 50 points. Also, Vietnam's Jul Index of Industrial Production (IIP) edged up only 2.2% yoy (vs. an increase of 6.8% yoy in the previous month). These indicators have shown the slowdown of industrial activities amid the fourth outbreak as many factories have to be temporary suspended to prevent the spread of coronavirus.

Regarding sub-sector, we saw a strong contraction in mining support service activities (-42.4% yoy), manufacturing of pharmaceuticals (-31.3% yoy), extraction of crude petroleum and natural gas (-10.6% yoy), repair and installation of machinery and equipment (-10.5% yoy) and manufacturing of beverages (-9.0% yoy). On the other hand, several sub-sectors were successful in maintaining strong growth in Jul despite the fourth outbreak, including manufacturing of basic metals (+30.2% yoy), manufacturing of coke and refined petroleum products

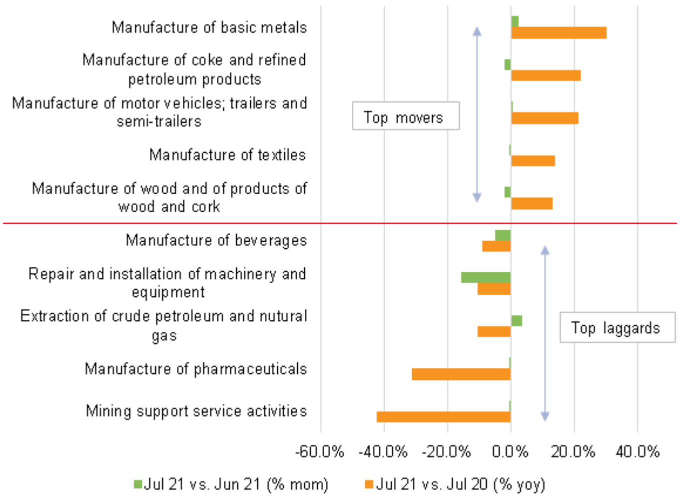
(+22.2% yoy), manufacturing of motor vehicles (+21.4% yoy), manufacturing of textiles (+14.1% yoy) and manufacturing of wood and of products of wood and cork (+13.3% yoy).

Figure 8: PMI remained under the 50-pt level



Source: GSO, VNDIRECT RESEARCH

Figure 9: Industrial production index (IIP) by category



Source: GSO, VNDIRECT RESEARCH

We expect manufacturing activity to see a modest recovery in Aug due to (1) many factories have begun to reopen after meeting COVID-19 containment requirements and (2) higher external demand for Vietnam's export products followed by the recovery of global economy.

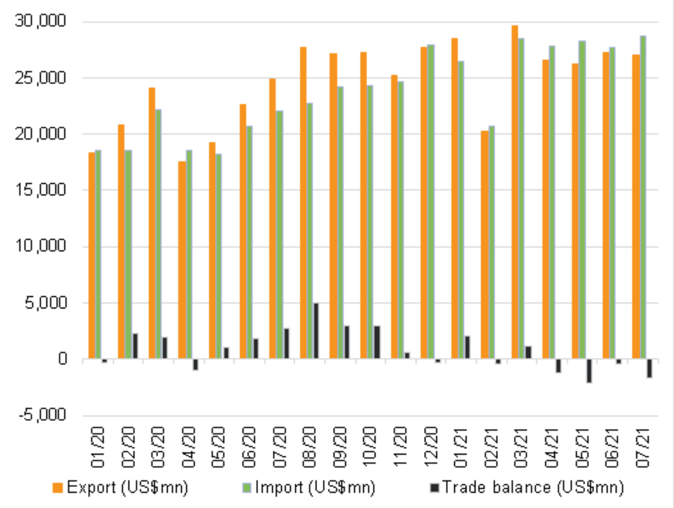
Import and export activities remained strong despite the fourth outbreak

Per GSO data, export value rose 8.4% yoy (-0.8% mom) to about US$27bn in Jul 2021. This positive year-on-year growth is a good indicator in the context that seaports in Southern Vietnam have to reduce operating capacity due to the fourth COVID-19 outbreak. For 7M21, export value climbed to US$185.3bn (+25.5% yoy).

Among Vietnam’s export products, the items that recorded the highest export growth rates in Jul 2021 include pepper (+128.7% yoy), steel (+122.7% yoy), means of transport and components (+68.9% yoy), textile fibers (+55.6% yoy) and chemicals (+42.0% yoy). On the other hand, some products saw a decline, including electronic goods & computers (-13.9% yoy), toys & sports equipment (-28.9% yoy), crude oil (-36.7% yoy), cassava & products (-12.7% yoy) and tea (-19.6% yoy).

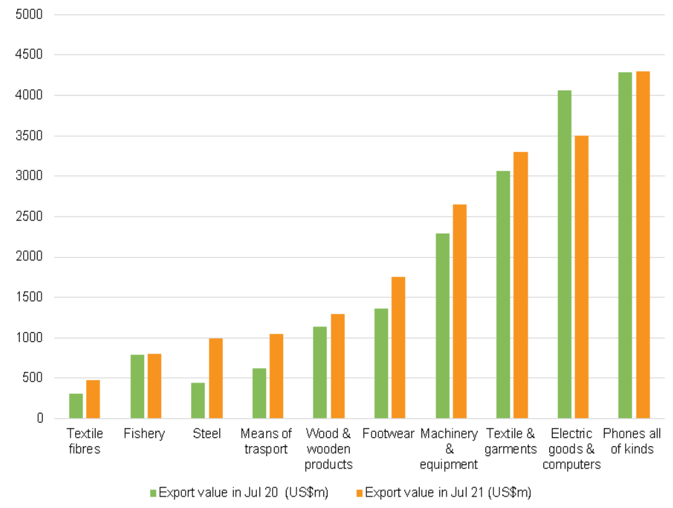
We expect exports to remain strong for the rest of 2021 thanks to (1) higher external demand for Vietnam’s goods as major economies have taken further steps to reopen, (2) there were no trade-restrictive measures on Vietnam’s goods by the US after Vietnam reached an agreement with the US on charges of currency manipulation in Jul 2021.

Figure 10: Vietnam continued to net import in Jul 2021



Source: GSO, VNDIRECT RESEARCH

Figure 11: Top export products in term of value in Jul (% yoy)

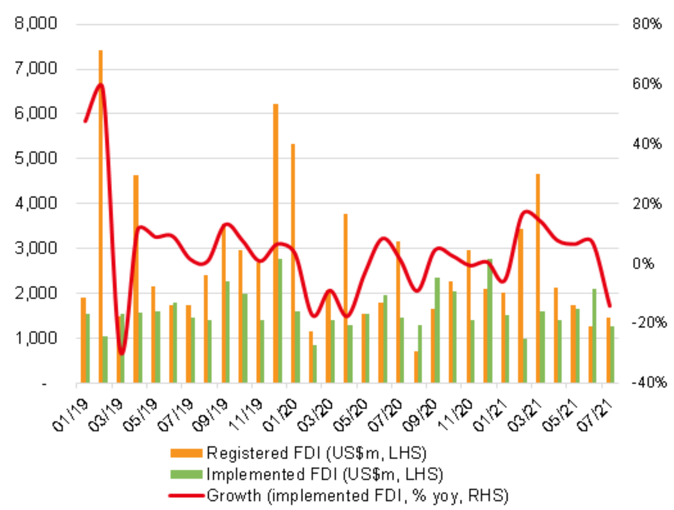


Source: GSO, VNDIRECT RESEARCH

As for imports, Vietnam's import spending rose 29.9% yoy to US$28.7bn in Jul 2021. For 7M21, import value climbed to US$188.0bn (+35.3% yoy), and Vietnam net imported US$2.7bn in 7M21 (vs. a trade surplus of US$8.7bn seen in 7M20), according to GSO. Among Vietnam's key import products, the items that witnessed the strong import growth rates in Jul 2021 include iron and steel scrap (+178.5% yoy), rubber (+135.6% yoy), crude oil (+120.6% yoy), fertiliser (+110.6% yoy) and cashew nut (+105.0% yoy).

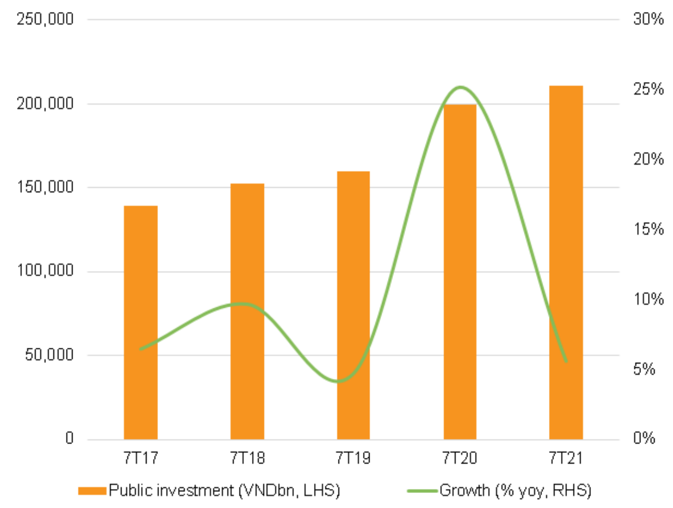
State investment and foreign direct investment (FDI) slackened amid fourth COVID-19 outbreak

Figure 12: FDI inflows



Source: GSO, VNDIRECT RESEARCH

Figure 13: Public investment is kept on track (VNDbn)



Source: GSO, VNDIRECT RESEARCH

The fourth outbreak has greatly impacted the business activities of FDI enterprises in Vietnam and temporarily pushed Vietnam back in the race to attract FDI capital. According to General Statistics Office (GSO), the registered capital of FDI projects in 7M21 dropped 11.2% yoy to US$16.7bn (vs. a decrease of 6.7% yoy in 7M20). To be more specific, 1,006 newly licensed projects with a registered capital of US$10.1bn, an increase of 7.1% in terms of registered capital compared to the same period in 2020; 561 projects licensed in the previous years approved to adjust investment capital (incremental FDI) with a total additional capital of US$4.5bn (-3.7% yoy); 2,403 turns of capital contribution and share purchases of foreign investors with a total value of the capital contribution of US$2.1bn, a drop of 55.9% over the same period in 2020. Regarding disbursement capital, the implemented capital of FDI projects reached US$10.5bn, increasing 3.8% yoy (vs. a 4.1% decrease in 7M20).

Figure 14: List of major FDI projects in 7M21

FDI projects	Sector	Registered capital (US$bn)	Province/City
Long An I & II liquefield natural gas (LNG) power plant	Power	3.1	Long An
O Mon II thermal power plant	Power	1.3	Can Tho
Expanding LG Display project in Hai Phong city	Manufacturing	0.8	Hai Phong
Polytex Far Eastern Vietnam	Manufacturing	0.6	Binh Duong
Jinko Solar PV Vietnam	Manufacturing	0.5	Quang Ninh
Radian tire manufacturing plant expansion project	Manufacturing	0.3	Tay Ninh
Foxconn project	Manufacturing	0.3	Bac Giang
Fukang Technology	Manufacturing	0.3	Bac Giang
JA Solar PV Vietnam Project	Manufacturing	0.2	Bac Giang

Source: VNDIRECT RESEARCH, MPI

The fourth outbreak also decelerated the growth of state investment. Per GSO data, disbursed investment under the state budget (public investment) in Jul dropped 12.4% yoy to VND38.3 trillion (-1.7% mom). Public investment saw a year-on-year decline in Jul due to (1) a surge in construction material prices and (2) the fourth outbreak, which caused many provinces to apply social-distancing rules under Directive 16, leading to delays in the implementation of public investment projects.

For 7M21, disbursed state capital increased 5.6% yoy to VND210.8 trillion (below the 25.2% rate seen in 7M20), equivalent to 44.3% of the full-year target.

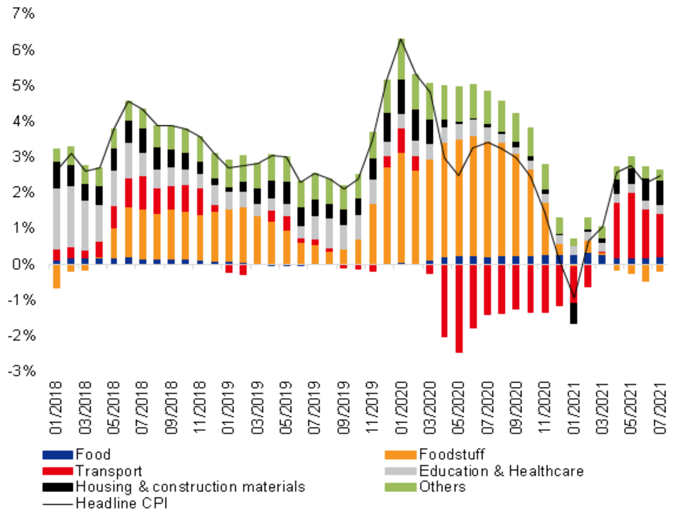
MACRO OUTLOOK: UNCERTAINTIES EMERGE

We cut 2021F average inflation to 2.4% due to lower domestic demand and falling in prices of essential services

Vietnam's headline inflation climbed to 2.6% yoy in Jul 2021 (vs. 2.4% in the previous month). On month-on-month basis, headline CPI inched up 0.6% vs. Jun level, mostly driven by the 2.4% mom increase in the transportation price index, the 0.9% mom increase in accommodation & construction materials index and the 0.7% mom increase in food & foodstuff price index.

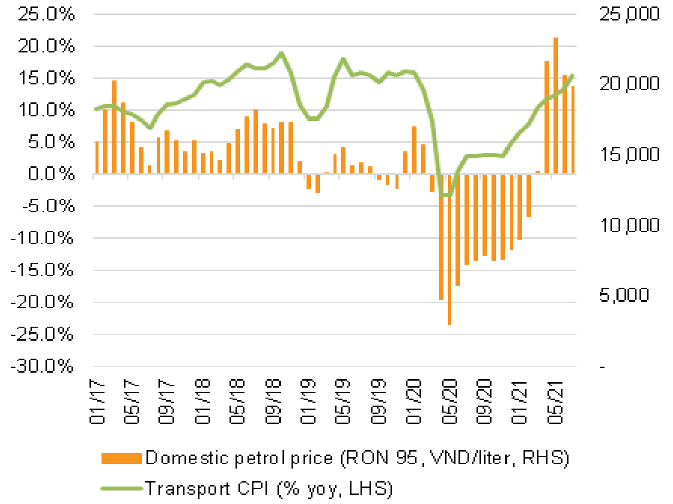
However, the headline CPI in Apr-Jul period was lower than our previous expectation due to (1) lower than expected food and foodstuff index amid the strong decline in pork prices in the last four months and lower consumption demand after the 4th wave of COVID-19 broke out. Besides, the Government has announced to reduce prices and fees of essential services such as electricity, water supply and telecommunication for customers affected by the COVID-19 pandemic. These policies also help curb inflation for the rest of 2021. As a result, we lowered our forecast for 2021F average CPI to 2.4% (+/- 0.2 percentage points) from a previous forecast of 2.9%.

Figure 15: Inflation well-managed



Source: GSO, VNDIRECT RESEARCH

Figure 16: Transportation CPI eased despite the rising petrol price



Source: GSO, VNDIRECT RESEARCH

We deliver two growth scenarios based on the duration and intensity of current wave

The fourth wave of Covid-19 infections greatly impacted on all aspects of Vietnam's economy, especially in the service sector and labour market, as we highlighted in more detail above. As such, we have revised our forecasts and present two scenarios for Vietnam's economic outlook in 2H21F.

We cut 2021F GDP growth to 5.5% in baseline scenario

Figure 17: Key macro forecasts in 2021 (baseline scenario)

Indicator	Unit	2018	2019	2020	2021F	2022F
Real GDP growth	**% yoy**	**7.08**	**7.01**	**2.91**	**5.48**	**7.12**
Export growth	% yoy	13.3	8.4	6.5	16.6	11.0
Import growth	% yoy	11.8	6.9	3.6	21.0	10.6
Trade balance	USD bn	6.9	10.9	18.9	10.5	12.9
Current account balance	USD bn	5.8	12.8	12.7	5.4	7.8
Current account to GDP	% of GDP	1.9	3.8	3.7	1.5	1.9
FX reserves	USD bn	55.1	79.0	95.0	111.2	128.0
FX to GDP	% of GDP	17.9	23.8	27.8	30.1	31.8
Import coverage	months	2.8	3.7	4.3	4.2	4.4
CPI (period average)	**% yoy**	**3.5**	**2.8**	**3.2**	**2.4**	**3.4**
Credit growth	**% ytd**	**13.9**	**13.7**	**12.1**	**13.0**	**13.0**
Credit to GDP	% of GDP	103.9	107.1	115.7	121.6	124.9
M2 growth	% ytd	12.4	14.8	14.7	12.5	13.0
Refinancing rate	%	6.3	6.0	4.0	4.0	4.25-4.5
12M deposite interest rate (year-end)	**%**	**6.8**	**6.8**	**5.6**	**5.7**	**6.2**
Government bond 10Y (year-end)	%	5.1	3.4	2.4	2.4	2.8
Exchange rate (USD/VND)	**% yoy**	**1.8**	**1.4**	**0-1.0**	**+/-0.5**	**0-1.0**
Fiscal balance	% of GDP	2.2	2.7	3.1	3.5	3.4
Public debt	% of GDP	46.6	43.4	45.0	45.0	44.4

Source: VNDIRECT RESEARCH, GSO, SBV, MOF

In the baseline scenario, we revised down Vietnam's 2021F GDP growth to 5.5% from a previous forecast of 6.5%. Our forecast is based on the following key assumptions:

- Vietnam would completely contain the fourth wave of COVID-19 pandemic in 3Q21.

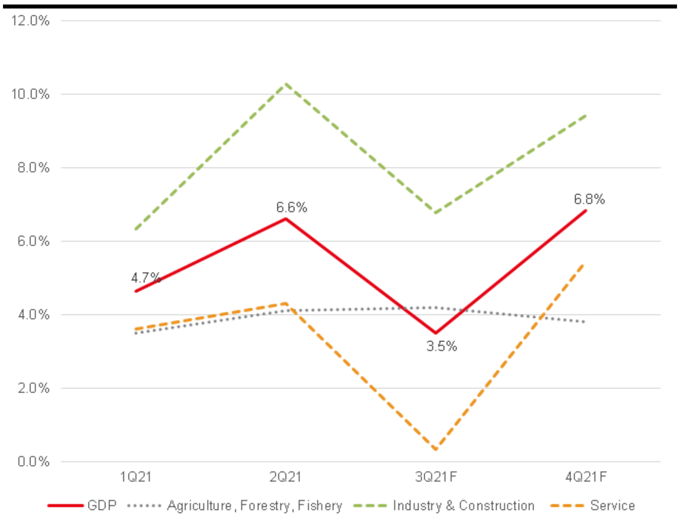
- Vietnam could effectively block the new wave of infections in industrial zones and maintain production supply chain to be not disrupted by the pandemic.
- Vietnam could accelerate vaccine deployment until the end of 2021. In our baseline scenario, about 50% of Vietnam's population will get at least one dose of COVID-19 vaccine by the end of 2021.
- Vietnam could pilot reopening some tourist areas, such as Phu Quoc island, for international tourists since the fourth quarter of 2021.
- Large countries, such as the US, the EU and China could keep accelerating vaccine deployment and continue to reopen their economies.

In our baseline scenario, the services sector could be hit hard by the fourth wave of infections. Some service sub-sectors, including; accommodation and food service activities; transportation and storage; arts, entertainment and recreation; administrative and support service activities, may record negative growth in 3Q21F before rebounding in 4Q21F after the government eases social distancing rules in southern provinces and allows non-essential services to reopen. We forecast the services sector rising 3.2% yoy in 2H21F, lower than the 4.0% and 3.6% rate seen in 1H21 and 2H20 respectively.

The industry and construction sector would also be negative impacted by the fourth wave of the pandemic because some factories had to suspend operation for several days to prevent the spread of coronavirus. However, we believe that the growth rate of industry and construction sector would remain strong in 2H21 thanks to (1) effective policies and solutions to prevent the spread of coronavirus in industrial zones and maintain production supply chain to be not disrupted by the pandemic (2) higher external demand amid a recovering global economy (3) an increase in public spending, especially for infrastructure developments. We expect the industry and construction sector to increase by 8.3% yoy in 2H21F (vs. the 8.4% rate seen in 1H21).

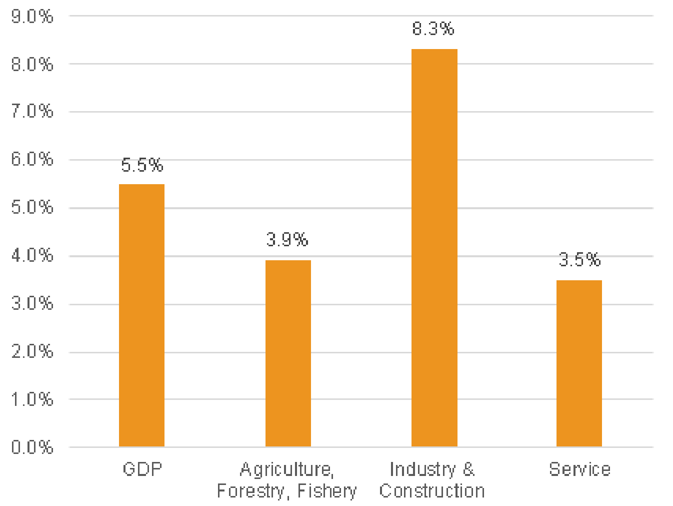
We expect the agricultural, forestry and fishery sector to grow by 4.0% yoy in 2H21F (vs. 3.8% rate seen in 1H21) due to the following reasons: (1) strong external demand for Vietnam’s agricultural products, especially seafood such as pangasius and shrimp; and (2) strong growth of livestock sub-sector amid sustainable recovery of pig herd size.

Figure 18: Forecasted quarterly GDP growth by sector in baseline scenario (% yoy)



Source: VNDIRECT RESEARCH, GSO

Figure 19: 2021F annual GDP growth by sector in baseline scenario (% yoy)



Source: VNDIRECT RESEARCH, GSO

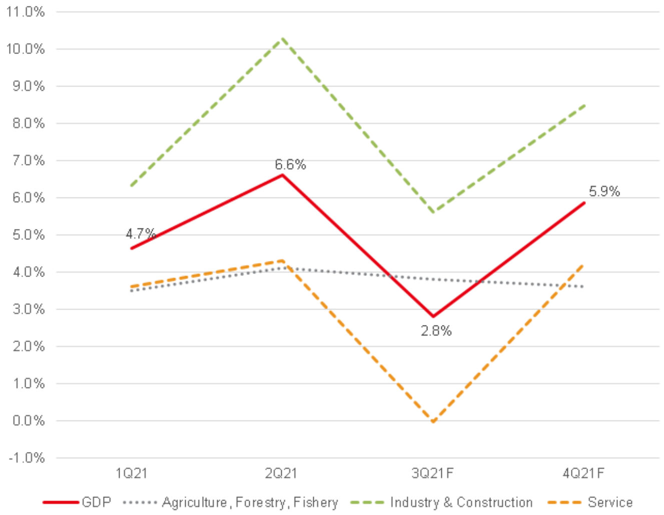
In worse case, Vietnam's 2021F GDP likely to grow 5.0% yoy

Our worst-case scenario is based on the following key assumptions:

- The fourth wave of infections would last longer. Other provinces in Northern and Central Vietnam could be ordered to apply the government's Directive 16 to prevent the coronavirus spread.
- More industrial parks must suspend due to the impact of the COVID-19 pandemic.
- Low vaccination rate due to shortage of vaccine supply. Only less than 30% of the population is immunized with at least one dose of the COVID-19 vaccine.
- Vietnam would not pilot welcoming tourists this year.
- The reopening of major economies in the world, such as the US and China, could be halted as infections dramatically increase due to the Delta variant.

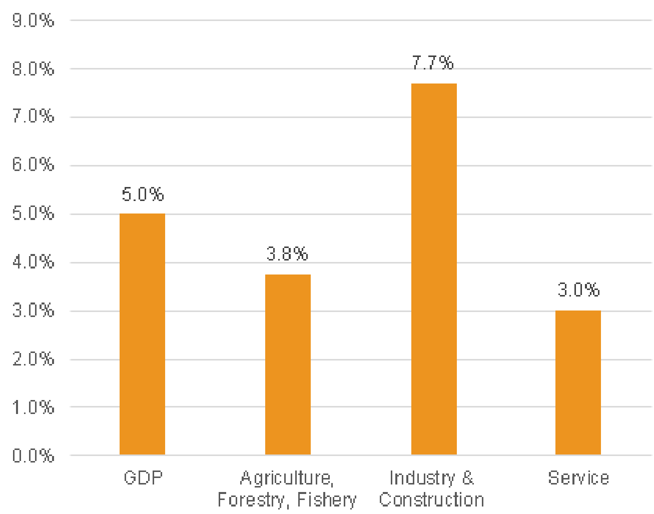
In the worst-case scenario, the pandemic's negative impact on the services sector would be prolonged and exacerbated. In this scenario, we forecast the services sector to expand by only 2.4% yoy in 2H21F (vs. 4.0% in 1H21 and 3.2% in baseline scenario). The industry and construction sector could rebound at a slower pace due to global supply chain disruptions and lower external and domestic demand. We forecast the industry and construction sector to grow by 7.3% yoy in 2H21F (vs. 8.4% in 1H21 and 8.3% in baseline scenario). For the agricultural, forestry and fishery sector, we forecast an expansion of 3.7% yoy in 2H21 (vs. 3.8% in 1H21 and 4.0% in baseline scenario) due to lower external demand for Vietnam's agricultural products.

Figure 20: Forecasted quarterly GDP growth by sector in worse-case scenario (% yoy)



Source: VNDIRECT RESEARCH, GSO

Figure 21: 2021F annual GDP growth by sector in worse-case scenario (% yoy)



Source: VNDIRECT RESEARCH, GSO

Monetary policy will lever in accommodative gear

We believe the State Bank of Vietnam (SBV) will maintain its pro-growth bias in 2H21, as following reasons:

- Lower inflation pressure as we discussed above could open up more room for monetary policy.
- On Jul 19, Vietnam reached an agreement with the US regarding its currency practices, in which Vietnam pledged not to deliberately engage in any competitive devaluation of the Vietnamese dong, as well as be more transparent about its monetary policy and exchange rates. Subsequently, the US Trade Representative (USTR) decided not to take any trade-restrictive measures against Vietnam, such as imposing punitive duties on Vietnam's

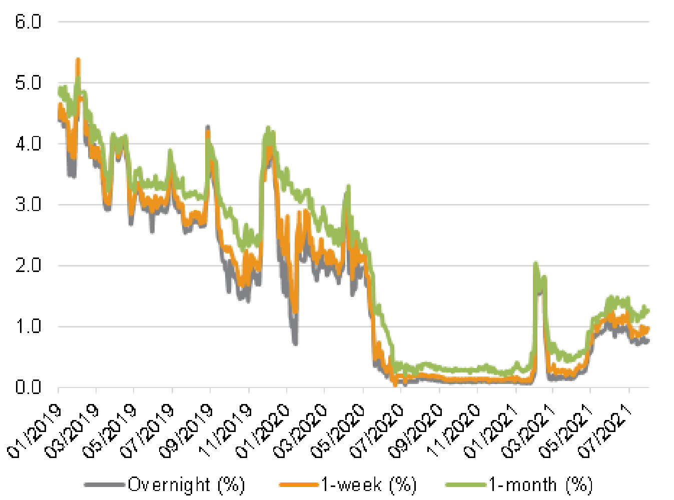
exports. The removal of the U.S tariff threat and a more flexible exchange rate would allow SBV to focus on supportive policies to help businesses overcome difficulties caused by the COVID-19 fourth outbreak.

- And finally, as the economic growth momentum will be hit hard by the current Covid 19-wave, both fiscal and monetary policies are likely to do more of the growth lifting in 2H21 and even 1H22.

We expect the SBV to be more open to raising the credit growth ceiling for commercial banks. We maintain our credit growth forecast for 2021F at 13%. Also, we expect the credit interest rate to ease further to support growth, especially for industries and customers heavily impacted by the COVID-19 pandemic. In Jul, SBV had required commercial banks to reduce lending interest rates to support businesses recovery. Following this, several banks have lowered lending rates. Specifically, four SOE banks, including Agribank, BIDV, Vietcombank, Vietinbank, have announced cutting lending rates by 0.5-1% for existing loans of businesses and individuals affected by the pandemic, such as those operating in tourism, transportation, education, accommodation & catering services. Meanwhile, private commercial banks such as ACB, MBB, VIB and VPB also committed to cut lending rates by 0.8-2.0% for outstanding loans of pandemic-hit clients.

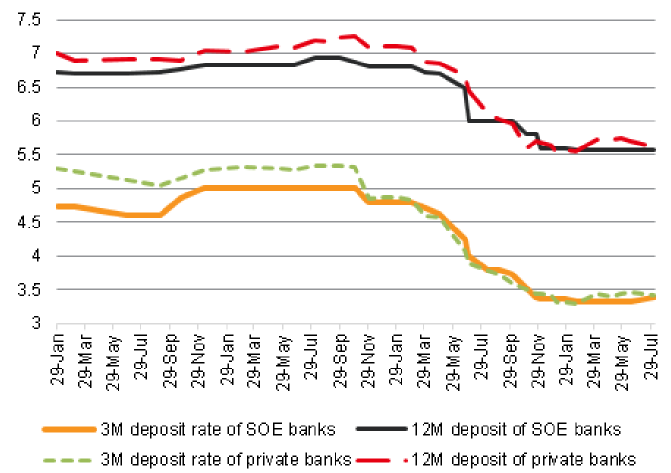
Regarding deposit interest rate, we lower our forecast for an increase in deposit rates for the remainder of the year to 10-15 basis points, from our previous estimates of 25-30 basis points.

Figure 22: Interbank interest rate declined 1-23 basis points qoq in Jul



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 23: Deposit rate of commercial banks remained flat in Jul (%)



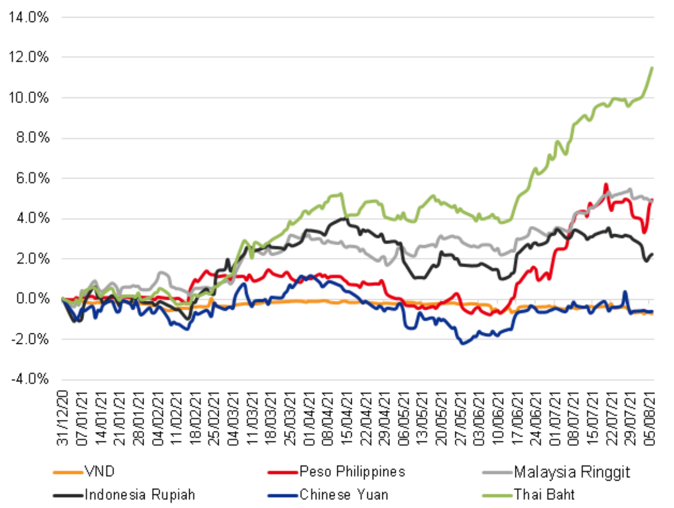
Source: Commercial banks, VNDIRECT RESEARCH

Our optimistic view for VND has turned more neutral for the rest of 2021

The Vietnam dong continues to strengthen against the U.S. dollar. As of 30 Jul, the interbank exchange rate for US$/VND fell 0.3% mom, while the US$/VND exchange rate in the free market dropped 0.9% mom. Meanwhile, the Vietnam Central bank-set exchange rate for the US$/VND stayed flat in Jul 2021.

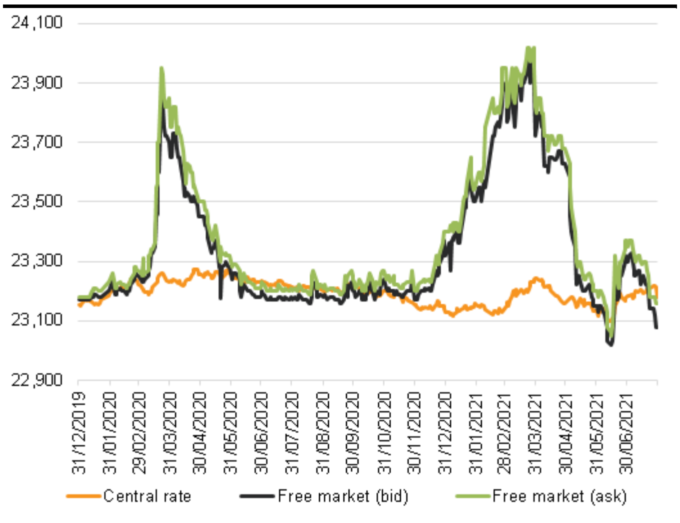
However, our optimistic view for VND has turned more neutral for the remainder of 2021 due to the following reasons: (1) USD may regain the upper hand in 2H21 as the Federal Reserve (FED) is considering scenarios of shrinking quantitative easing programme (QE tapering) from late-2021 or early-2022, (2) recent inflation picks up and (3) the return of trade deficits of c. US$2.7bn in the first seven months.

Figure 24: Regional currencies vs. the USD (% YTD)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 25: VND continued to strengthen against the U.S. dollar in Jul (US$/VND)



Source: SBV, VNDIRECT RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings	Definition:
Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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