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VNU UNIVERSITY OF  
ECONOMICS & BUSINESS

# VIET NAM QUARTERLY MACROECONOMIC REPORT

## Quarter 2 and the first six months - 2021

**This report is supported by:**



**Foundation Office Vietnam**



## SUMMARY

- Several economies showed signs of recovery in the first quarter of 2021. However, emerging virus variants and staggered vaccination rollouts due to supply shortages posed new threats that led to uneven recovery across countries.
- Faster-than-expected economic recovery pushed up prices of numerous commodities simultaneously as supply chains failed to keep up with the rapid uptrend of consumer demand and global trade.
- China's economy recovered remarkably in Q2/2021. However, there remained uncertainties for manufacturing and services in Q2 due to elevated inflation.
- The U.S. economy rebounded robustly due to effective vaccination policies and assistance programs. Maintaining views on temporary inflation, the Fed kept interest rates at 0 - 0.25% and purchased Treasury bonds and mortgage-backed securities.
- Europe continued its economic contraction in Q1/2021 due to the resurgence of the pandemic. However, the prospects of economic recovery brightened in Q2 due to a boost in the vaccination progress, leading to a sharp drop in the number of new cases and hospital admissions, which allowed many European countries to reopen.
- In Q2/2021, Viet Nam's economy grew at 6.61% (yoy). The growth in the agro-forestry-fishery, service and industrial sectors increased in the first half of 2021. The FDI sector played crucial roles in economic growth through exports.
- In addition to the impact of the COVID-19 epidemic, businesses in Vietnam have to bear additional production costs due to the increase in raw material prices and land rents.
- Average inflation in the second quarter of 2021 increased by 2.67% (yoy), in the first six months increased by 1.47% - the lowest since 2016, but there are many increasing pressures due to high production costs and disruptions in the supply chain due to disease prevention measures. Inflation might increase in the near future due to the rise of food prices, education-related fees, and fluctuations in energy price.
- Trade balance deficit due to the need to import materials to restore the production process.
- Interbank interest rates suddenly increased again after February.
- Vietnam's economic growth in 2021 is forecasted to reach 4.5% - 5.1%, which is 1.2 - 1.5 percentage points lower than the previous forecast.

## WORLD ECONOMY

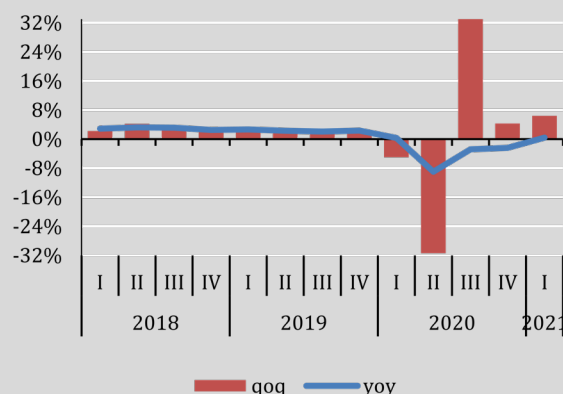
### The U.S. economy recovered robustly

According to the third estimate released by the Bureau of Economic Analysis (BEA), the U.S. economy continued to rebound during Q1/2021 at a growth rate of 6.40% (qoq) and 0.40% (yoy) due to effective vaccination policies and assistance programs, which led to the reopening of businesses and production facilities. As a result, according to the WB's latest forecast in June, is expected to grow at a rate of 6.40% (yoy) in 2021, 3.30 percentage points higher than the January forecast.

At the end of June 2021, the headline U.S. inflation was 1.57%, while the core inflation was 1.08%. Concerning sectoral breakdown, indicators of services signalled an impressive recovery in Q2/2021. In May, NMI jumped to a record high of 64.0% as numerous service businesses reopened and pent-up demand was released after pandemic restrictions eased, which explained the surge of 66.2% in NMI Business Activity. As usual, in the summer, education services plunged, resulting in June NMI being reduced by 3.9 percentage points from May NMI yet staying at a relatively high level, 60.1%.

The unemployment rate (seasonally adjusted) did not change significantly, fluctuating between 5.8% and 6.1%. The number of new jobs dived to 266,000 jobs

#### U.S. economic growth

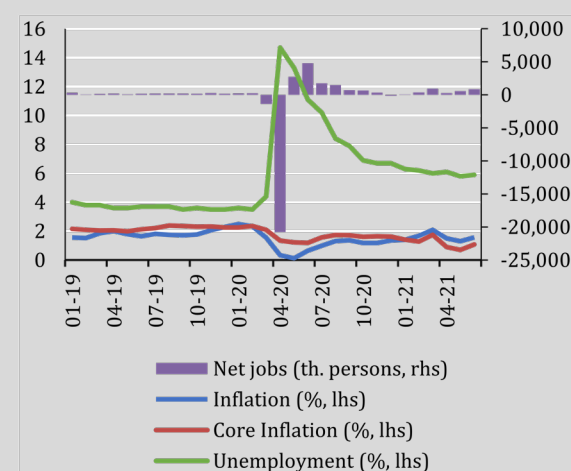


Source: BEA, OECD

in April but was likely to shoot up again in Q2/2021, especially in the services sector.

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

#### U.S. inflation and unemployment



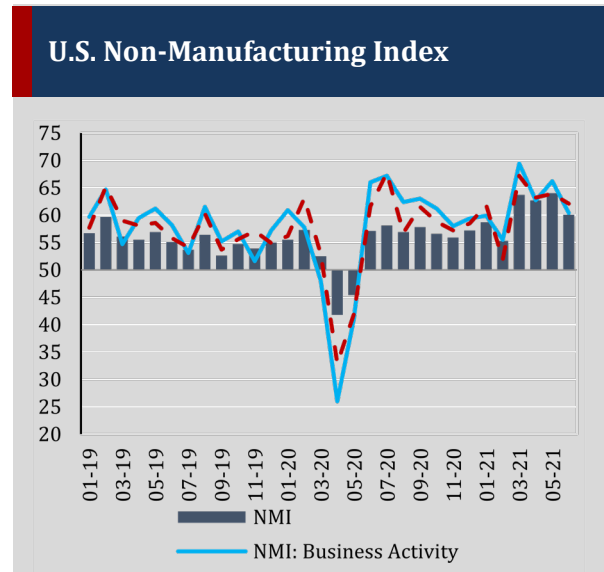
Source: BLS

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.

Monetary and fiscal policies that support the economy contributed substantially to the U.S. economic recovery in the second half of 2020 and early 2021, but at the same time, they also pose significant challenges. According to the June 2021 report of the Bureau of the Fiscal Service, the U.S. budget deficits in the first half of the year reached USD 2.2 trillion. They were expected to hit USD 3.7 trillion by the end of 2021, the highest budget deficit level since 1945. In light of large budget deficits,

### The European economy continued to contract yet signalled recovery

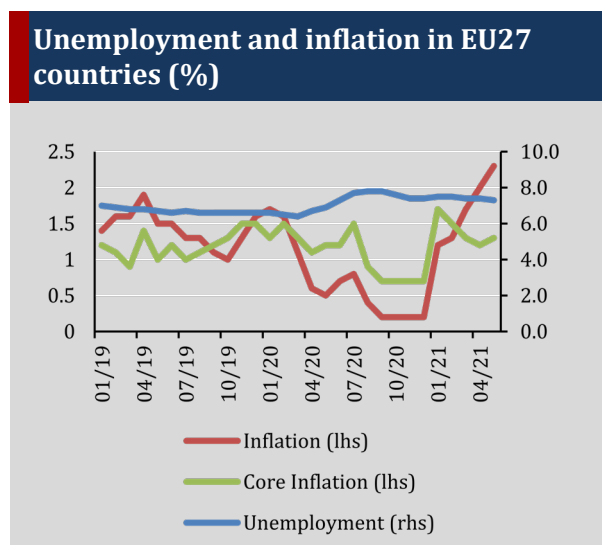
In the first quarter of 2021, due to the new pandemic wave and the slow vaccination progress, several European countries resorted to re-imposing restriction and lockdown measures, the EU27 and EA12 economies continued to decline at negative 1.24% (yoy) and negative 1.27% (yoy), respectively. However, starting from the second quarter, as accelerated vaccination programs and effective preventive measures considerably reduced new cases and hospitalizations, many European countries reopened. Consequently, Europe's economic growth rate is projected at 4.2% in 2021 by WB, which is 0.6 percentage points higher than the January forecast.



Source: ISM

public debt reached over USD 28.5 trillion. It continued to grow, raising long-term concerns about the confidence in the USD as an international reserve currency.

Employment in the EU27 countries did not change significantly in Q2/2021. The unemployment rate oscillated slightly around 7.4% in April and 7.3% in May.

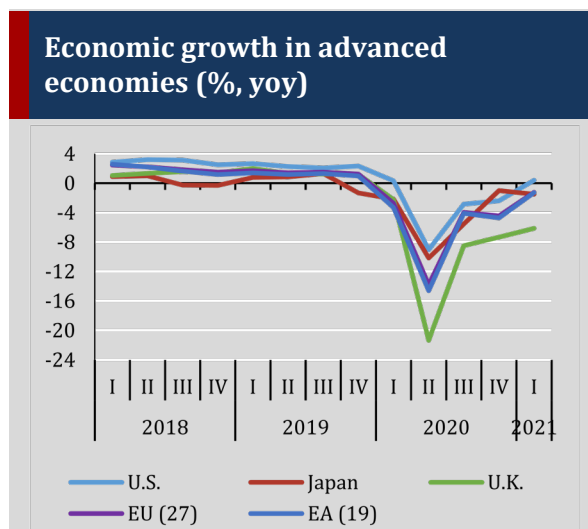


Source: OECD

Inflation rebounded sharply from 1.7% in March to above 2% in April and May. Specifically, at the end of May, inflation was 2.3%, of which core inflation was 1.3%.

In the meeting on June 10, 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 EUR 1.85 trillion, which was expected to be extended at least until the end of March 2022, and approves the plan to offer cheap bank loans in order to encourage lending. Additionally, the EU is vigorously implementing the EUR 750 billion post-pandemic economic recovery package approved at the end of 2020 and expected to last six years.

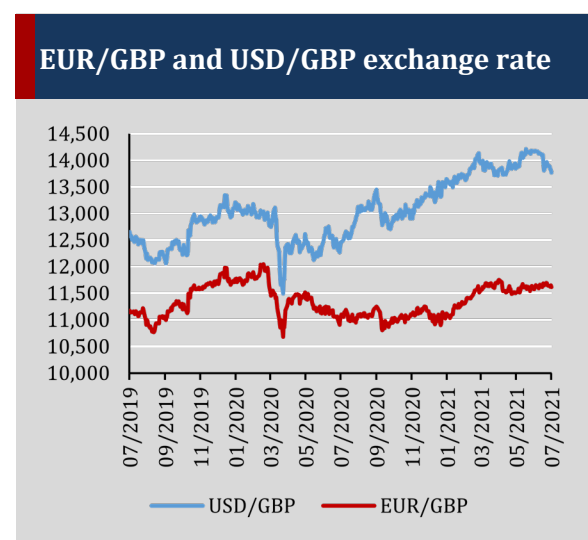
The EUR/GBP exchange rate generally stayed unchanged in Q2/2021. At the end of the quarter, it dipped by 1.16% compared to the beginning of the quarter. On the other hand, the USD/GBP exchange rate rapidly went up during Q2/2021, peaking at USD/GBP 1.42 in mid-May. However, this rate saw a steep downward trend during the second half of June,



Source: OECD

ending up at USD/GBP 1.39 at the end of the month.

The U.K. economy continued to slump in Q1/2021 to negative 6.14% (yoy) as the nationwide lockdown order on January 4, 2021, pushed the economy into a crisis. However, the order's lifting in the second quarter, along with highly effective vaccination policies and financial support, is expected to accelerate the U.K. economic recovery in the remaining months of 2021.

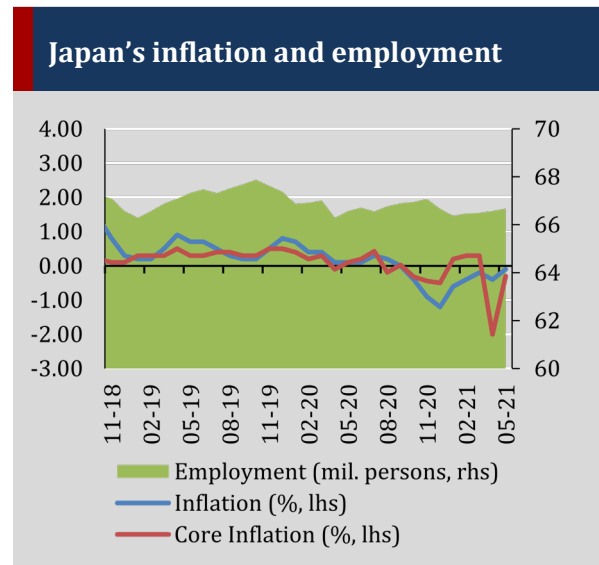


Source: BoE

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. As employment was severely affected by the pandemic in early July, the U.K.

### Japan's economy faced several barriers

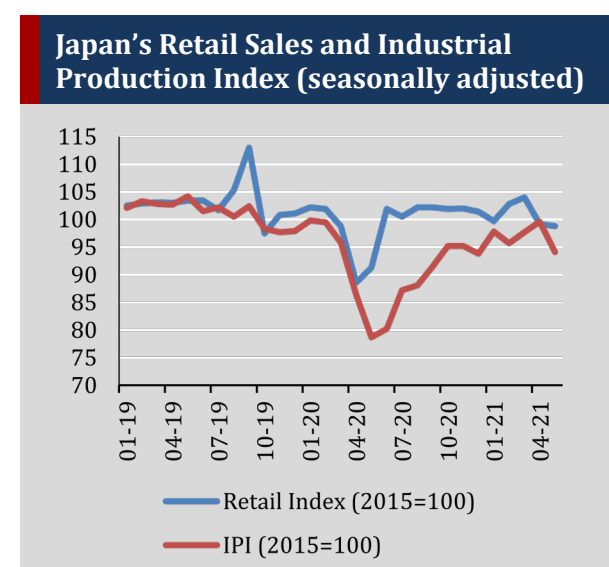
In Q1/2021, the trend of economic recovery in Japan was reversed with a growth rate of negative 1.5% (yoy), lower than Q4/2020 (with a rate of negative 1.0% (yoy)) due to the adverse impacts of the pandemic on corporate investment and private spending. As the COVID-19 wave broke out in late December, on January 7, 2021, Prime Minister Yoshihide Suga declared a state of emergency for Tokyo and surrounding areas. The state of emergency was extended in the second quarter, which was expected to bring multiple challenges to the Japanese economy in the coming time.



Source: Statistics Bureau of Japan

government approved an additional fiscal stimulus package worth EUR 30 billion to support job retention and help young people find work.

In Q2/2021, uncertainties remained in retail and production. Retail sales



Source: Japan Macro Advisors

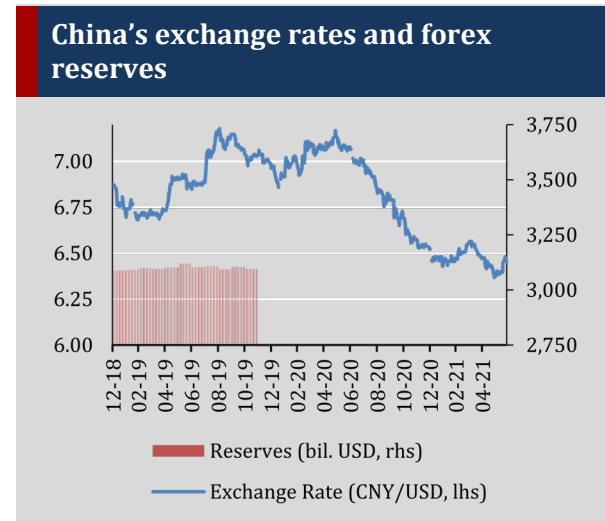


witnessed a downtrend in the second quarter, falling to 98.8 in May as a result of the third state of emergency. Industrial Production Index (IPI) recorded a remarkable increase in April but dropped to 94.1 in May. Inflation decreased marginally to negative 0.4% in April and then picked up again, reaching negative 0.1% in May. Core inflation plunged in April primarily due to the impacts of the pandemic and descending mobile phone fees. Despite the complicated pandemic, employment in the second quarter 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 (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

### China's economic recovery remained on track

China's economy in Q1/2021 continued to recover with a GDP growth rate of 18.30% (yoy) after expanding 6.50% (yoy) in Q4/2020. This impressive growth rate was partly supported by an unprecedentedly low growth rate (negative 6.8% (yoy)) in the same period of 2020. China's economy



Source: FRED, PboC

the pace of JPY 7.5 trillion each until the end of March 2022. Regarding fiscal policies, in 2021, the Japanese government 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. In the meeting on June 18, 2021, The policy committee of the Bank of Japan agreed on the extension of the support package for additional six months to March 2022.

is expected to continue to recover over the remaining years of 2021 due to successful pandemic control and increasingly speedy vaccine rollouts.

In Q2/2021, PMI was downtrend, ending at 50.9 in June due to surging raw material prices, global semiconductor shortage, and

the new pandemic wave in Guangdong. NMI declined from 56.3 in March to 53.5 in June. COVID-19 stimulus packages have left lasting impacts on global inflation, causing difficulties for several countries around the world, including China.

Regarding the foreign exchange market, the CNY considerably appreciated against the USD in April-May/2021 as interest rates in China significantly went up relative to those of the U.S. and effective pandemic control helped attract an abundant amount of FDI into China. To curb the appreciation of the CNY, the PBoC decided to raise the foreign exchange reserve requirement ratio of commercial banks from 5% to 7% starting from July 15. This decision, plus the changes in the timeline of raising interest rates in the U.S.,

pushed the CNY/USD rate up to CNY/USD 6.45 at the end of June.

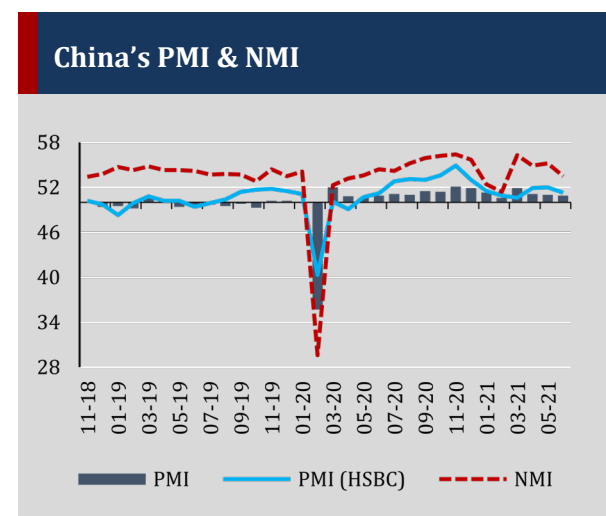
In 2020, the PBoC has cut the reserve requirement three times and provided approximately CNY 1.8 trillion to commercial banks to ensure their ability to supply capital to the economy. As small companies had recently suffered from soaring raw material prices, the PBoC announced that it would cut the reserve requirement ratio by additional 50 bps from July 15, 2021. Simultaneously, 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.

### BRICS economies started to pick up

In Q1/2021, the economies of the BRICS countries improved compared to Q4/2020. In particular, India and Brazil began to approach positive growth. Meanwhile, South Africa and Russia continued to experience an economic contraction as an impact of the pandemic.

India's economy improved with a growth rate of 1.83% (yoy) in Q1/2021, higher than the growth in Q4/2020 (0.40% (yoy)). However, the complicated development of the pandemic since the second half of Q1/2021, during which the total number of infections continuously increased and surpassed 30 million cases

at the end of June, made the economic outlook in Q2 dim again, especially in the service sector, as restrictions were



Source: AASTOCKS

imposed. Concerning fiscal policies, 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 country's COVID-19 vaccination program worth INR 350 billion (USD 4.67 billion). Besides, the Reserve Bank of India (RBI) decided to trim the repo rate to 4.4% and the reverse repo rate to 3.35% for commercial banks making deposits to the RBI, allow three-month debt rescheduling for commercial banks, reduce the required reserve ratio at commercial banks to 3% and maintain the rates until now. On May 4, 2021, the RBI introduced new measures to ease liquidity and financial conditions, including direct liquidity boosters for healthcare facilities and services related to COVID-19 and a special long-term repo operation (SLTRO) program for small financial institutions.

In Q1/2021, Russia's economy shrank 2.04% (yoy), a slight improvement compared to Q4/2020 (with a decline of 2.69% (yoy)). The economic recovery in Russia continued to face various risks due to the slow vaccination progress. In order to stabilize the domestic economic situation, in 2020, the Central Bank of Russia (CBR) has lowered interest rates four times in total, from 6.25% to 4.25%. After the anti-crisis macroeconomic policies achieved their goals, the CBR started to raise the macro-fiscal buffer for mortgage loans from early 2021 and unsecured loans from July. In addition, RUB 300 billion was provided to assist people

who lost their jobs due to lockdown measures. The 2021 fiscal package is expected to be significantly lower, at around 1.5% of GDP.

South Africa's economy continued to weaken in Q1/2021 with a growth rate of negative 2.73% (yoy) but witnessed an improvement compared to the rate of negative 4.25% (yoy) in Q4/2020 due to growth in the mining, financial, and commercial sectors. The outbreak of COVID-19, which pushed up the need for economic support measures, put further pressure on revenue collection in South Africa. Figures released by the National Treasury of South Africa revealed that the 2021 national budget through March recorded a deficit of 11.2% of GDP. 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. In early April, the one-year Loan Guarantee Scheme (LGS) program, which was part of the USD 29 billion economic stimulus package issued in April 2020, was extended an additional three months to assist small businesses affected by the pandemic.

Brazil's economy in Q1/2021 witnessed a growth rate of 2.26% (yoy), significantly improving compared to the growth rate in Q4/2020 (negative 1.22% (yoy)) and bringing the country's economy to the pre-pandemic level due to the strong recovery in the services and investment sectors. To control inflation, most liquidity support measures were removed in 2021. By May,

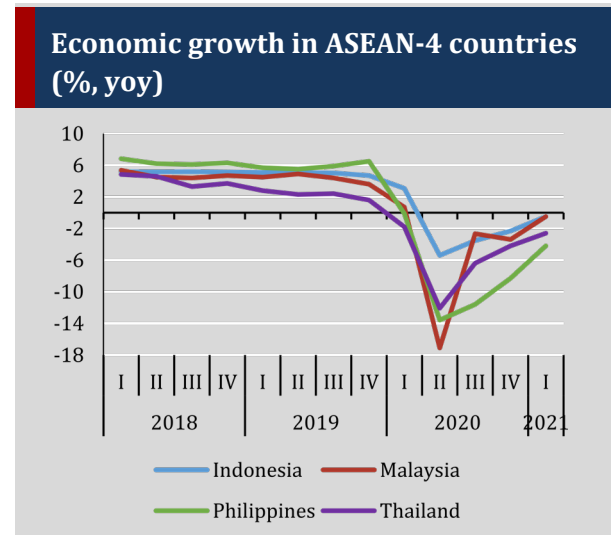
the SELIC interest rate climbed to 3.5% from a historic low of 2%. In early March, the government approved an extension of USD 7.9 billion in emergency aids for millions of Brazilians struggling amid the COVID-19 pandemic.

### ASEAN continued to suffer from the pandemic

ASEAN-4 economies continued to contract in Q1/2021 but reflected an improvement compared to 2020. Economic recovery in ASEAN-4 is expected to be challenging as vaccination progress is lagging behind many countries around the world, leading to difficulties in pandemic control.

Economic contraction in Indonesia slowed down in Q1/2021 compared to the decline of 2.32% (yoy) in Q4/2020, recording a growth of negative 0.49% (yoy) as economic activity of households has been gradually returning to normal, especially in the retail sector. 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 Q1/2021, the Philippines' economic growth rate reached negative 8.4% (yoy), the lowest among ASEAN countries, as the quarantine restrictions and the prolonged



Source: OECD, DOSM, CEIC, NESDC

COVID-19 pandemic continued to hinder business activities and consumption. In April, Philippine authorities decided to tighten local quarantine measures due to the spike in COVID-19 infections, which was expected to derail this country's economic recovery. 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. In 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 Q1/2021 fell by 2.60% (yoy) as the pandemic continued to affect consumption and the tourism industry negatively, but there was an improvement compared to the growth rate of negative 4.20% (yoy) in Q4/2020. The Thai government has issued various fiscal stimulus packages in 2020 and the first half of 2021 to mitigate the impacts of the pandemic and serve the economic recovery. On May 25, The King approved an emergency decree that allowed the Ministry of Finance to borrow THB 500 billion to counter the economic and social impacts of the prolonged COVID-19 pandemic. On June 1, in response to the most severe outbreak, the government approved a new economic stimulus package worth THB 140 billion (USD 4.5 billion), including cash transfers, copayments, and cashback. 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 addition,

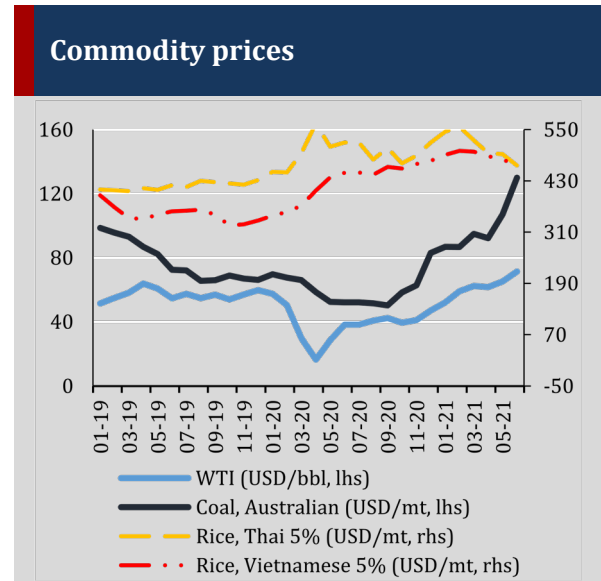
restrictions to combat the pandemic were also eased from April 2021 to promote the recovery of the tourism industry, including reducing the number of mandatory quarantine days from 14 days to 10 days for international travellers from countries that do not contain worrisome virus variants and offering quarantine exemption to vaccinated international visitors to the resort island of Phuket.

Malaysia's economy grew at a rate of negative 0.50% (yoy) in Q1/2021, higher than the growth of negative 3.40% (yoy) in Q4/2020. The primary reason was that the movement control order (MCO) 2.0, with the removal of many strict restrictions specified in the MCO in 2020, allowed a large number of business activities to reopen. In 2020, the Malaysian government launched five economic stimulus packages totalling 72.4 USD to mitigate the effects of the COVID-19 pandemic. Along with the extension of MCO 3.0 on May 31, the government announced an MYR 40 billion support package, focusing on supplementing health spending and supporting those severely affected by the pandemic. Since early 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%.

## Commodity and asset markets

The global commodity market in Q2/2021 saw a striking divergence in prices between energy and food products. Crude oil prices maintained their upward momentum from Q1, from USD 62.35/barrel in March to USD 71.38/barrel in June. The increase stems from the strong recovery of the global economy, leading to a climb in fuel demand and a shortage of supply. In addition, other factors, such as rising inflation and depreciating USD, are also the reasons that oil prices continuously peaked in Q2. Among other energy commodities, Australian coal prices shoot up in Q2/2021 due to the spike in demand for air conditioning equipment in the summer, ending up at USD 129.97/ton at the end of Q2, increasing 36.9% compared to the end of the previous quarter.

Asian rice prices went against the general trend of food commodities, continuously dropping as the supply chain is heavily affected by the lockdown order and the shortage of cargo ships during the pandemic. Thai and Vietnamese rice prices fell to USD 466/ton and USD 474/ton, respectively, in June. The outlook for rice demand remains relatively optimistic, but major price competition is expected among the top rice exporters, especially when



Source: The Pink Sheet – WB

Indian rice prices have recently been maintained at low levels.

In the asset market, the world gold price in Q2 recovered robustly due to the Fed's announcement to maintain interest rates, causing the USD to cool down. At the same time, the global economic recovery also boosted central banks' consumption of gold. The world gold price peaked at USD 1907.5/oz in early June. However, the Fed's announcement on June 16 about the possibility of tightening monetary policy affected gold prices adversely. This announcement pushed up the USD index and U.S. government bond yields, enhancing the opportunity cost of holding gold and subsequently causing gold prices to slide from USD 1859.5/oz on June 16 to only USD 1773.8/oz overnight.



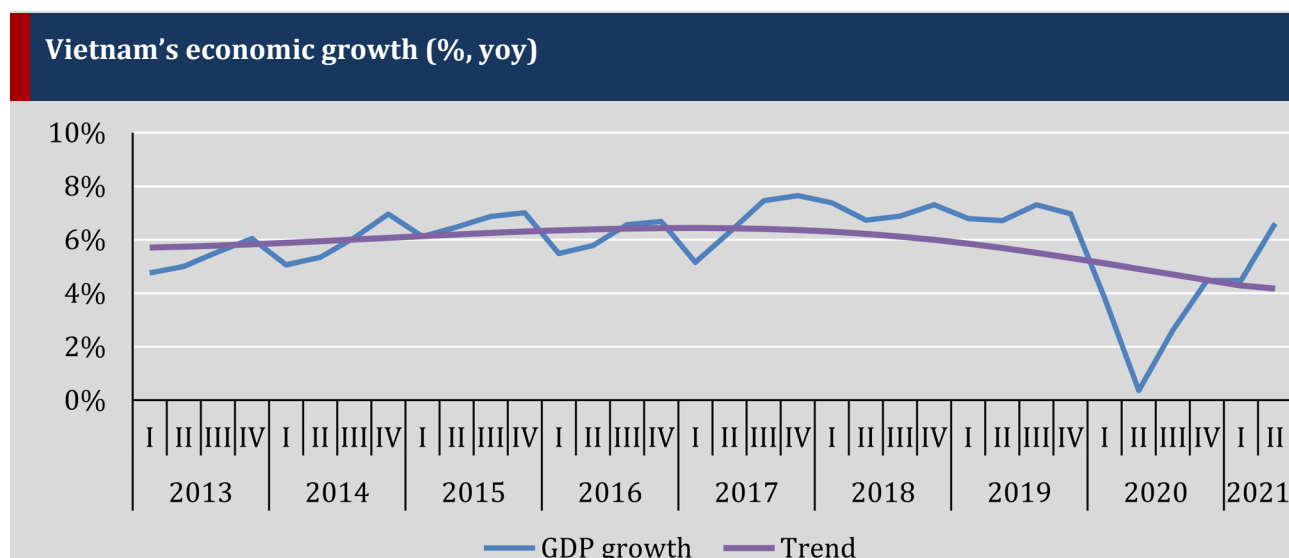
## Global Economic Prospect (%)

	WEO (4/2021 IMF)			GEP (1/2021, WB)		
	2020e	2021p	2022p	2010e	2021p	2022p
<b>Thế giới</b>	-3.3	6.0 (0.9)	4.4 (0.2)	-3.5	5.6 (1.5)	4.3 (0.5)
<b>Các nền kinh tế phát triển</b>	-4.7	5.1 (1.2)	3.6 (0.7)	-4.7	5.4 (2.1)	4.0 (0.5)
Mỹ	-3.5	6.4 (3.3)	3.5 (0.6)	-3.5	6.8 (3.3)	4.2 (0.9)
Khu vực đồng tiền chung Châu Âu	-6.6	4.4 (-0.7)	3.8 (0.7)	-6.6	4.2 (0.6)	4.4 (0.4)
Anh	-9.9	5.3 (-0.6)	5.1 (1.9)			
Nhật Bản	-4.8	3.3 (0.9)	2.5 (0.9)	-4.7	2.9 (0.4)	2.6 (0.3)
<b>Các nước mới nổi và đang phát triển</b>	-2.2	6.7 (0.6)	5.0 (-0.1)	-1.7	6.0 (0.8)	4.7 (0.4)
Nga	-3.1	3.8 (0.9)	3.8 (1.4)	-3.0	3.2 (0.6)	3.2 (0.2)
Trung Quốc	2.3	8.4 (0.2)	5.6 (-0.2)	2.3	8.5 (0.6)	5.4 (0.2)
Ấn Độ	-8.0	12.5 (3.7)	6.9 (-1.1)	-3.8	4.0 (-0.9)	5.0 (-0.2)
Brazil	-4.1	3.7 (0.8)	2.6 (0.3)	4.0	-7.3 (2.3)	8.3 (2.9)
Nam Phi	-7.0	3.1 (0.1)	2.0 (0.4)	-7.0	3.5 (0.2)	2.1 (0.4)
<b>ASEAN-5</b>	-3.4	4.9 (-1.3)	6.1 (0.4)			
Indonesia	-2.1	4.3 (-1.8)	5.8 (0.5)	-2.1	4.4 (0)	5.0 (0.2)
Malaysia	-5.6	6.5 (-1.3)	6.0 (0.0)	-5.6	6.0 (-0.7)	4.2 (-0.6)
Philippines	-9.5	6.9 (-0.5)	6.5 (0.1)	-9.6	4.7 (-1.2)	5.9 (-0.1)
Thái Lan	-6.1	2.6 (-1.4)	5.6 (1.2)	-6.1	2.2 (-1.8)	5.1 (0.4)
Việt Nam	2.9	6.5 (-0.2)	7.2 (-0.2)	2.9	6.6 (-0.1)	6.5 (0)
Lào	-0.4	4.6 (-0.1)	5.6 (0.0)	0.4	4.0 (-0.9)	4.6 (-0.2)
Campuchia	-3.5	4.2 (-2.6)	6.0 (-1.4)	-3.1	4.0 (0.0)	5.2 (0.0)
Myanmar	3.2	-8.9 (-14.5)	1.4 (-4.8)	1.7	-10.0 (-12)	

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

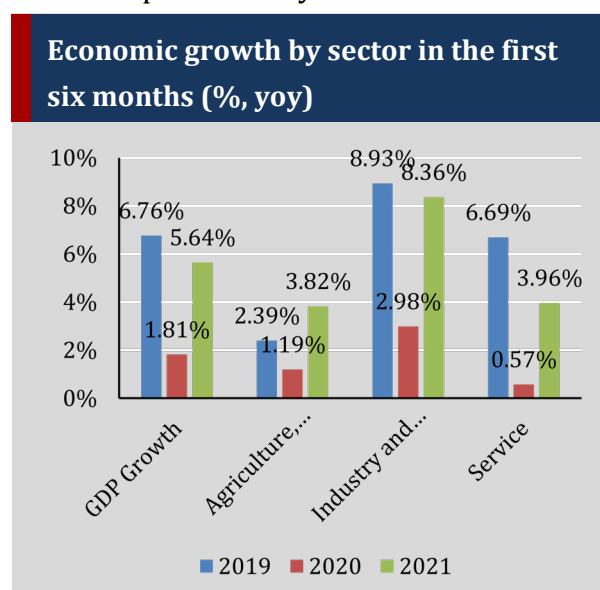
## VIETNAM'S ECONOMY

### Economic Growth



Source: GSO

Continued growth since Quarter 3/2020, Vietnam's economy grew 6.61% (yoy) in quarter 2/2021, the higher the growth rate of the same period of 2020 (0.36%, yoy). In the first six months of 2021, the agriculture, forestry and fishery sector grew by 3.82%, the industry and construction sector by 8.36% and the service sector by 3.96% over the same period last year.



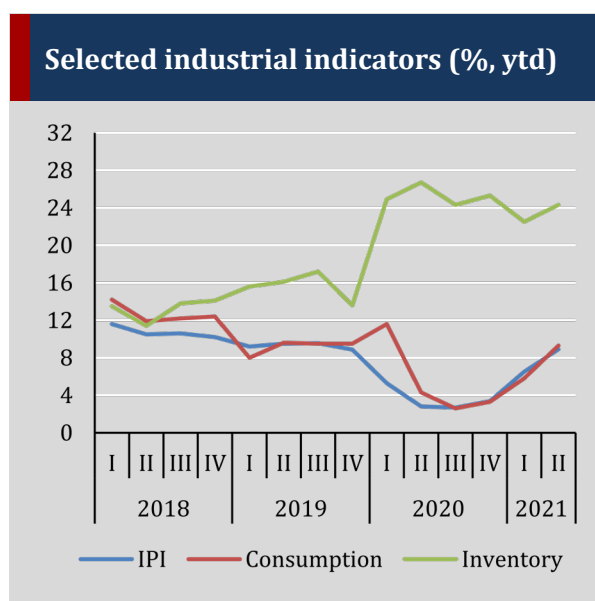
Source: GSO

Compared to the same period in 2020, the second quarter of 2020 recorded an increase of 3.83% in agriculture, 4.1% in forestry and 4.96% in fisheries. The fishery industry is back to robust growth thanks to a recovery in demand from foreign markets. The agricultural sector continued to achieve substantial change in the first quarter of 2021 based on favourable weather conditions and control of swine and avian influenza diseases, helping achieve high crop and livestock productivity.

In the second quarter of 2021, the industry and construction sector increased by 10.28% (yoy), lower than the second quarter of 2019 but higher than the growth rate of 2020. Regarding the industrial and construction sector, the manufacturing and processing industry continued to play a leading role in the economy's growth in the second quarter of 2021 with a growth rate of



13.84% (yoy), and only lower than the same period in 2011 and 2018. On the other hand, because crude oil and natural gas production declined in Q2/2021, the mining industry declined by 4.68% (yoy). Due to the influence of epidemic prevention measures, the construction industry increased by 4.82% (yoy); this increase was only higher than the second quarter of 2020 (4.59% (yoy)) in the period 2014-2020.



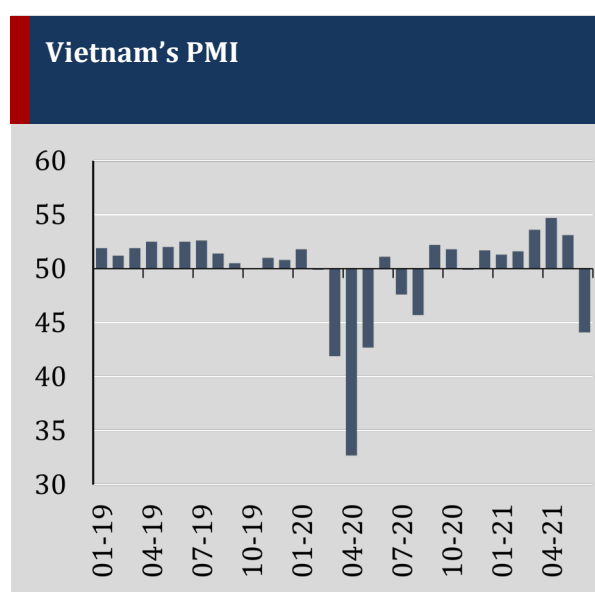
Source: GSO

In the service area, the system of restaurants and on-site food service establishments, passenger transport faced many difficulties due to social distancing in some localities to prevent epidemics. The growth of the service sector in the first six months of 2021 was only higher than the growth rate of 0.48% of the same period in 2020 in the period 2011-2021.

Contributions of some market service industries with a large proportion to the increase in the total added value of the first six months of 2021 are as follows:

Wholesale and retail increased by 5.63% over the same period last year, which is the service sector's most significant contribution to the total value-added growth of the whole economy with 0.57 percentage points; financial, banking and insurance activities rose by 9.27%, contributing 0.49 percentage points; transportation and warehousing decreased by 0.39%, down by 0.02 percentage points; accommodation and catering services diminished by 5.02%, down 0.12 percentage points.

The industrial production index (IPI) increased by 11.3% in quarter 2/2021 compared to the same period last year, higher than the 5.06% of the same period of 2020. In the first six months of 2021, indicators of the industrial processing industry, manufacturing rose by 9.3% (yoy). The inventory index continued to increase sharply with events such as the previous quarter with growth of 24.3% (yoy), but the increase is lower than the same period last



Source: IHS Markit

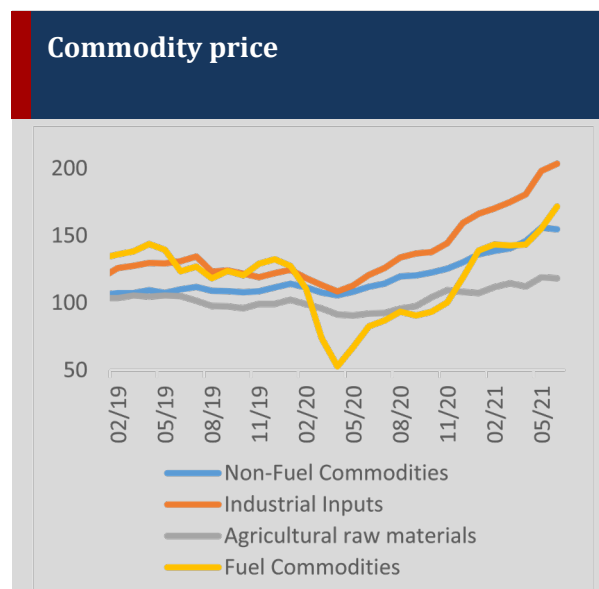
year (26.7%). This suggests that businesses are still stalled in production and downsize production.

### *Production at a disadvantage in the mid and late Q2*

Affected by measures to prevent the spread of the 4th epidemic, the supply chain was disrupted in the second quarter of 2021. In April, the growth tendency of the Quarter 1/2021, which reached 54.7 points PMI. However, the COVID-19 epidemic started again in early May 2021. The pandemic control measures caused the supply chain to continue to be disrupted since the 3rd outbreak in Vietnam, making the PMI a downward trend in quarter 2/2021, which stood at 44.1 points in June.

Since the outbreak of COVID-19 in early 2020, businesses have difficulty producing the measures spacing society is adopted to control the epidemic and face the increase in production costs. Since April 2020, the world price of goods and materials has increased sharply. Specifically, as of May 6/2021, non-fuel commodity prices, including agricultural raw materials and input raw materials for industrial production, rose by 38.25% over the same period last year. In particular, raw materials for industrial production rose 68.6% (yoy), and agricultural raw material prices increased by 28.44% crude (yoy). Fuel prices increased by 108.28% (yoy) mainly due to reduced supply. On the other hand, land rent in industrial zones has been overgrowing in recent years. Specifically, the average land rental price

in the second quarter of 2021 in the northern provinces was 107 USD/m<sup>2</sup>, rising 8.1% (yoy). In the southern regions, it was 111 USD/m<sup>2</sup>, an increase of 8.2% compared with the same period last year. In addition, sea freight rates in late October 6/2021 have increased by about 4-8 times compared with the same period in 2020.



Source: IMF

Survey results on business trends of enterprises in the processing and manufacturing industry in the second quarter of 2021 show that: 30.5% of enterprises rated better than in the first quarter of 2021; 37.7% of enterprises said that the production and business situation was stable, and 31.8% of enterprises rated it as having difficulties. Compared to Q1, this result shows that businesses are still cautious with their beliefs amid the

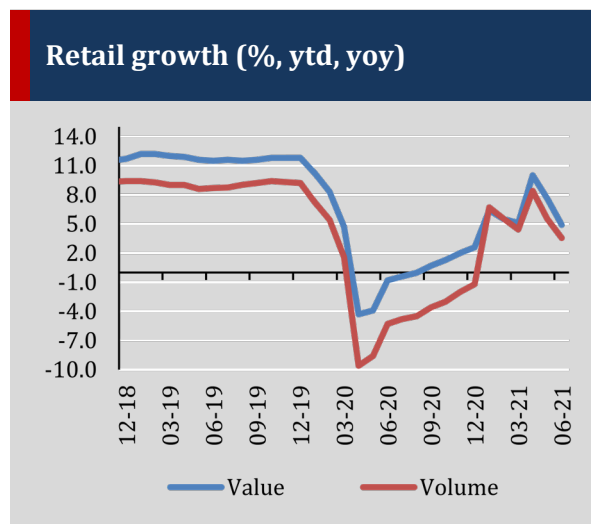
resurgence of the COVID-19 epidemic. In the expected third quarter of 2021, 32.5% of enterprises will assess trends better than the second quarter of 2021; 34.6% of companies forecasting more difficult and 32.9% of the enterprises that manufacture business will stabilize.

Generally, in the first six months of 2021, the country has nearly 67.1 thousand registered business establishments with a total registered capital of 942.6 trillion and a total labour force registered 484.3 thousand employees, up 8.1% in the number of enterprises, 34.3% of registered capital and 4.5% decrease in the number of employees over the same period last year. Besides, there were 26.1 thousand businesses back operating, up 3.9% compared to the same period the previous year, bringing the total number of newly-established enterprises and enterprise back operations in the first six months By 2021, to 93.2 thousand enterprises, an average of 15.5 thousand enterprises are freshly established and returned to process every month. Also, in the first six months of this year, 70.2 thousand enterprises have suspended business terms, awaiting decommissioning procedures complete dissolution and the dissolution procedure, up 24.9% compared to the same period last year, including 35.6 thousand enterprises temporarily suspending business, up 22.1% over the same period the previous year; 24.7 thousand enterprises decommissioned pending dissolution procedures, up 25.7%; 9.9 thousand businesses complete dissolution

procedures, up 33.8%. Monthly average of 11.7 thousand enterprises to withdraw from the market.

### Retail and service activities are on the recovery

Total retail sales of goods and services in Q2/2021 estimated at 1177.6 trillion, down 8.4% from the previous quarter and up 5.1% compared to the same period last year. Generally, in the first six months of 2021, total retail sales of goods and consumer services reached 2463.8 trillion, up 4.9% compared to the same period last year, excluding the price factor increased by 3, 55% (period 2020 decreased by 5.77%). Make use of the channel, online shopping platform, and retail businesses that can easily meet the consumer needs of people quickly. Therefore, the retail industry was not negatively affected when the epidemic broke out again at the end of Q2.



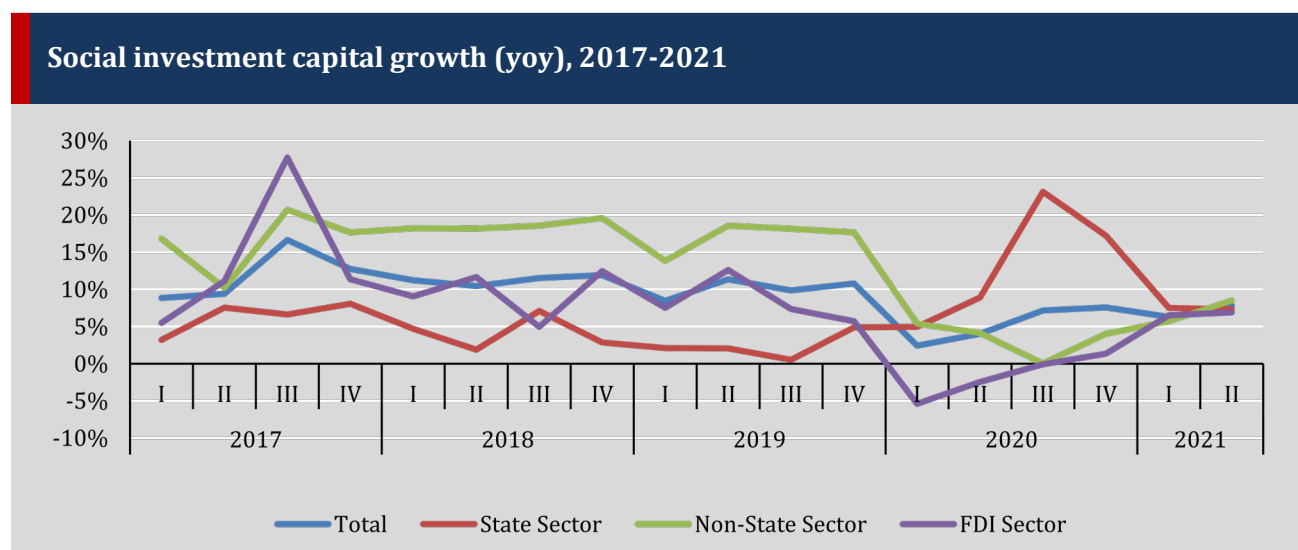
Source: GSO

We also note that the traditional statistics on the retail market may be rated lower than actual if not embracing the online market.

### Investment growth made from the stable sector since Quarter 1/2021

In Q2, social investment was estimated at 661.1 trillion dong, up 7.83% over the same period last year. The State sector

reached 172.4 trillion VND, up 7.3% compared to the second quarter of 2020. The non-state sector reached VND 369.3



Source: GSO

trillion, up 8.5% (yoy), and the FDI sector reached VND 119.3 trillion, up 6.9% (yoy).

Generally, in the first six months of 2021, capital investments made the whole society reached 1169.7 trillion, up 7.2% compared to the same period last year, including the State Capital region reached 295.2 trillion VND, accounting for 25.3% of total capital and increasing by 7.3% (yoy) over the same period last year; non-state sector reached 660.1 trillion dong, equaling 56.4% of total capital and rising by 7.4% (yoy); FDI sector reached 214.4 trillion dong, equaling 18.3% and increasing by 6.7% (yoy). This increase reflects the results of solutions to promote the disbursement of public investment capital, the effectiveness of the State's support policies for the business community, and the tendency to anticipate the shifting FDI inflows into Vietnam in the context of the Covid-19 pandemic under control.

Total foreign investment in Vietnam in the first six months of 2021 reached USD 15.27 billion, down 2.6% from the same period last year. Including 804 newly licensed projects with total registered capital of nearly USD 9.55 billion, down 43.3% in several projects and 13.2% of the registered capital over the same period last year; 460 turns of projects licensed from previous years adjusted registered capital with the capital increase reached USD 4.12 billion, up by 10.6% (yoy); There were 1,855 times of capital contribution to buy shares from foreign investors with a

total capital contribution of USD 1.60 billion, down 54.3%. In the total number of capital contribution and share purchase by foreign investors with 624 turns of capital contribution and share, investment increases charter capital of the enterprise value is USD 772.7 million capital contribution and 1,231 respectively Foreign investors buy back domestic shares without raising charter capital with the value of USD 832.9 million. Capital foreign direct investment performed the first six months of 2021 reached USD 9.24 billion estimates, up 6.8% compared to last year's same period.

In general, in the first six months of 2021, Singapore continues to be the country with the most significant FDI investment in Vietnam, with a total capital of more than USD 4.7 billion, accounting for 50% of total FDI, up 9.5% (yoy). Compared to the same period in 2020, Japan replaced China to become the second-largest investor in Vietnam with a total capital of USD 1.6 billion, up 412% over the same period last year. China's total FDI investment in Vietnam ranked third, reaching USD 678 million, down 28.6% (yoy).

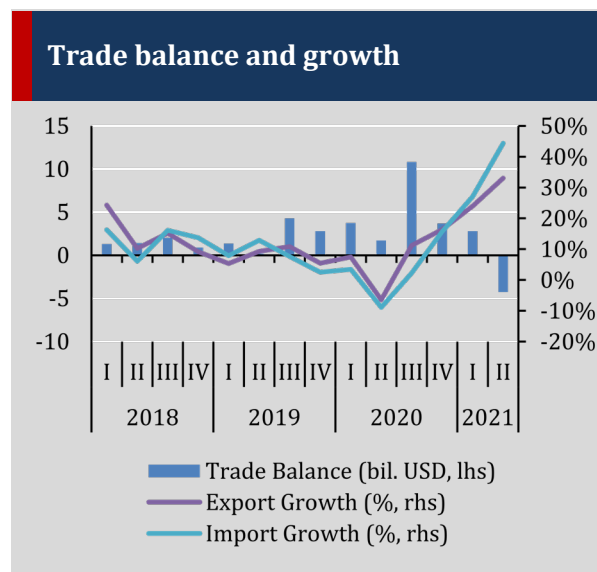
The manufacturing and processing industry continued to lead in total investment capital with more than 6.9 billion USD, accounting for 45.7% of total newly registered investment capital. The electricity production and distribution industry ranked second with a total investment of 5.34 billion USD, accounting for 35% of the total registered investment capital. Next, in

turn, is the field of real estate business and professional activity fields of science and technology with a total registered capital of 1.15 billion US dollars respectively, and 476 million.

### *The trade balance deficit*

The balance of trade in goods in the first six months of 2021 is estimated to have a deficit of USD 993 million. Compared to the surplus in the same period last year (1.85 billion USD), this trade deficit was caused by the need to import production materials of recovering enterprises. In quarter 2/2021, the domestic sector deficit of \$ 8.58 billion, up by 86.7% (yoy). The FDI sector had a surplus of USD 4.31 billion, down 31.7% (yoy).

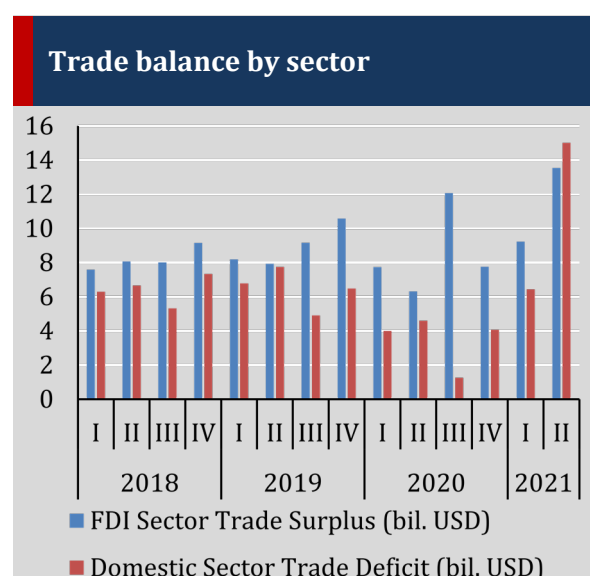
Export turnover in Q2 was estimated at USD 79.23 billion, up 33.5% (yoy) and up 1.1% (qoq). The export turnover of the FDI sector reached USD 57.4 billion, up 38.2% (yoy) and the export turnover of the domestic economic sector reached USD 21.8 billion, up 22.5% (yoy). Generally, in the first six months of 2021, export turnover of goods is estimated at 158.34 billion USD, up 35.57 billion USD, up 29% respectively (yoy); the domestic economic sector reached USD 40.89 billion, up 16.8%, accounting for 25.9% of total export turnover; FDI sector (including crude oil) reached USD 116.74 billion, up 33%, accounting for 74.1%. It can be seen that the FDI sector is making good use of opportunities from FTAs that Vietnam has signed than the domestic economic sector. Total import turnover in the first quarter



Source: GSO

was estimated at USD 75.61 billion, up 27.08 % (yoy), (Q4 net income increased by 15.71%(yoy)). Specifically, imports of the FDI sector increased by 42.82%, accounting for 65.77% of import turnover (only 58.52% in the first quarter of 2020).

Regarding the structure of export products in 6 months, the group of heavy industrial goods and minerals was estimated at 84 billion USD, up 29.3% (yoy); light industry



Source: GSO



and handicrafts group was estimated at 58 billion USD, up 31.2% (yoy); agroforestry products reached 11.58 billion USD, up by 15.8% (yoy); seafood products reached \$4.05 billion, up 12.4% (yoy). Export of critical products still maintained stable growth. At a steady growth rate, export turnover to significant markets and markets with FTAs with Vietnam achieved growth compared to last year. The demand for goods on the world market is recovering, and this is an opportunity for Vietnam to boost exports, especially businesses that make good use of the signed Free Trade Agreement. In the first half of 2021, the United States is Vietnam's largest export market with a turnover of 45.58 billion USD, up 4.7% (yoy). Next is China, with 24.9 billion USD, up .8% (yoy). EU market reached USD 19.3 billion, up by 18.2% (yoy). ASEAN market came to USD 13.9 billion, up 28.2% (yoy). South Korea reached USD 10.32 billion, up 13.3% (yoy). Japan reached \$ 10.6 billion, up 8.2% (yoy).

Import turnover in Q2 was estimated at USD 83.5 billion, up 45.7% (yoy) and up 10.4% (qoq). Generally, in the first six months of 2021, import turnover of goods was estimated at 159.33 billion USD, up 42.43 billion USD (up 36.3% (yoy)) over the same period last year, of which the region domestic economy reached 55.9 billion USD, up 30.2% (yoy); FDI sector reached 103.2 billion USD, up 39.5% (yoy).

Regarding the structure of imported goods in the first six months of 2021, the group of

production materials is estimated at 149.32 billion USD, up 36.7% (yoy), in which the group of machinery, equipment, tools and spare parts reached 72 billion USD, up 33% (yoy); raw materials, fuel and materials reached 77.35 billion USD, up 40.2% (yoy). Consumer goods group was estimated at US\$ 9.78 billion, up 28% (yoy). China is Vietnam's largest import market with a turnover of 2.92 billion USD, up 52.92% over the same period last year. Followed by the Korean market reached 25.37 billion USD, up 25.37%. The ASEAN market reached 21.2.9 billion USD, up 50.5%. Japan reached 10.68 billion USD, up 13.2%. The EU market reached US\$ 8.25 billion, up 18.6%. The United State's reached 7.63 billion USD, up 9%.

On April 16, 2021, the US Department of Finance withdrew the name of Vietnam from the list of currency manipulators when there was not enough conclusive evidence as in the report "Macroeconomic and foreign exchange policy of the trading partners with the United States of America" in December 2020. Although there are disagreements on macroeconomic management policies, the US government has not yet imposed punitive taxes on Vietnamese goods. However, the trade surplus between Vietnam and the US has continued to increase over the years, prompting the US government to convene a meeting to resolve the above issue on 7/7/2021, including considering the Taxation of some Vietnamese exports to the US. If the US government decides to impose

tariffs on some vital Vietnamese products, it will significantly affect Vietnam's trade balance because the US is Vietnam's largest export market. On July 19, 2021, the US Treasury Department agreed with the State Bank of Vietnam to resolve the US Treasury

Department's concerns about Vietnam's monetary policy. Accordingly, the agreement will indefinitely delay the imposition of duties on goods imported from Vietnam.

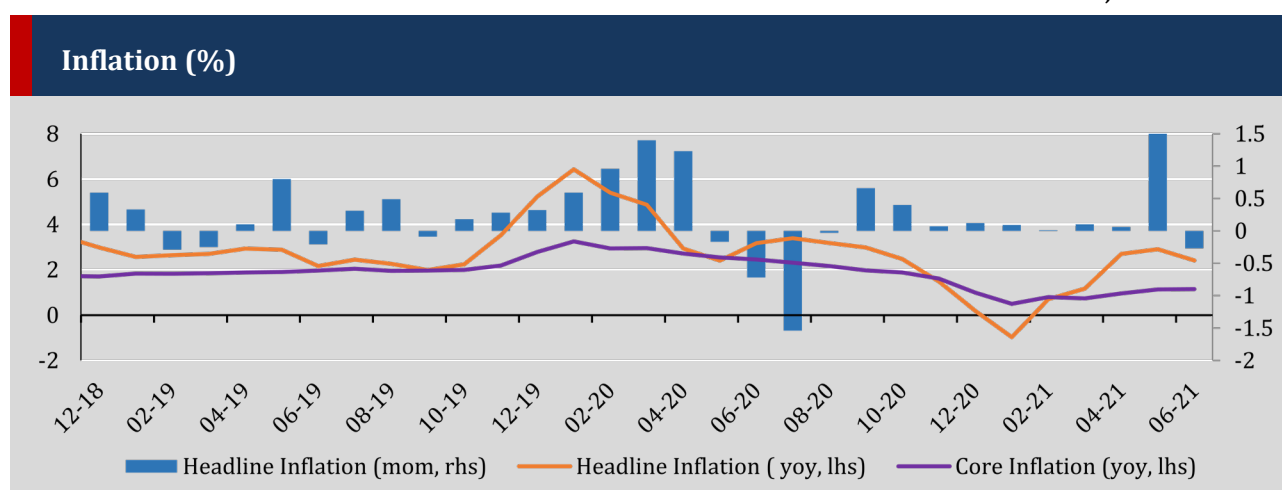


## Inflation remained stable in the first six months of the year

Average CPI in Q2 increased by 2.67% over the same period in 2020, the main reason due to (i) the price of gasoline, oil and gas prices in the country affected by world prices while increasing 51.37% respectively and 26.18% (yoy), (ii) the price of educational services increased by 4.44% (yoy) due to the impact of the tuition fee increase for the 2020-2021 school year according to the roadmap of Decree 86/2015/ND-CP, (iii) the price of housing maintenance materials increased by 7.26% (yoy) due to the increase in steel price when the price of input materials for steel production increased and (iv) the price of food group increased by 4.33% (yoy) ) due to a 5.41% increase in rice prices in Q2.

In the first six months of 2021, CPI increased by 1.47% (yoy), the lowest increase since 2016. Inflation increased due to the following reasons: (i) In the first 6 months of 2021, domestic gasoline price

was adjusted 10 times, causing gasoline price to increase by 17.01% (yoy), (ii) retail gas price In the domestic market, it was adjusted up 4 times and decreased 2 times, the average gas price increased by 16.51% (yoy) in 6 months, (iii) the price of education services increased by 4.47% over the same period last year due to the influence of from the tuition fee increase for the new school year 2020-2021 according to the roadmap of Decree No. 86/2015/ND-CP, (iv) the domestic rice price increases according to the export price of rice and consumer demand for glutinous rice and plain rice During the Lunar New Year holiday, the price of rice in the first 6 months of 2021 increased by 6.97% (yoy) and (v) the price of housing maintenance materials in the first 6 months of this year increased by 5.03% over the same period last year. due to the increase in cement, iron, steel and sand prices in line with the price of input materials. On the other hand, thanks to the



Source: GSO

timely support and intervention from the Government to help maintain socio-economic stability, the market supply and demand situation were vibrant, the source of goods was stable, and there was no shortage of goods, helping keep inflation of most items low.

Core inflation has tended to be stable from January 2021 up to now, averaging 1.07% (yoy) in the second quarter of 2021 and 0.87% (yoy) in the first six months of 2021. Forecasting price trends of commodity groups after removing fluctuations in energy price and food price will not have much change.

## Fiscal policy

### *Budget revenue increased slightly compared to the same period last year*

According to the Ministry of Finance, state budget revenue in the first six months of 2021 is generally positive; total revenue was estimated at 775 trillion dong, equaling 57.7% of the estimate, up 15.3% over the same period last year thanks to the positive economic recovery process and the effectiveness of policies to support people, businesses during the pandemic.

State budget expenditure in the first six months of 2021 was estimated at 694.4 trillion VND, equaling 41.2% of the estimate, down 4.9% over the same period in 2020 due to the policy of increasing spending on epidemic prevention.

Development investment expenditure was estimated at 133.9 trillion dongs, equaling 28.1% of the 2021 estimate, down 14.1% over the same period in 2020; recurrent expenditure reached 501 trillion dongs, equaling 48.3% and down 1.6% (yoy).

The state budget deficit is strictly controlled to the extent permitted by the National Assembly, equivalent to about 3.93% of the estimated GDP. Although the Government is trying to increase public investment to promote economic growth in the world and domestic financial difficulties, it should not expect too much in public investment this year because of the current state of the budget deficit. Vietnam's fiscal policy has been ongoing for many years, and this year's deficit maybe even larger.

By the end of June 30, 2021, the Government has spent about 4,650 trillion VND on the prevention and control of the COVID-19 epidemic and supported nearly 13 million people. On July 1, 2021, the Government issued Resolution No. 68/NQ-CP to support workers and businesses affected by the COVID-19 epidemic with a scale of up to 26 trillion VND.

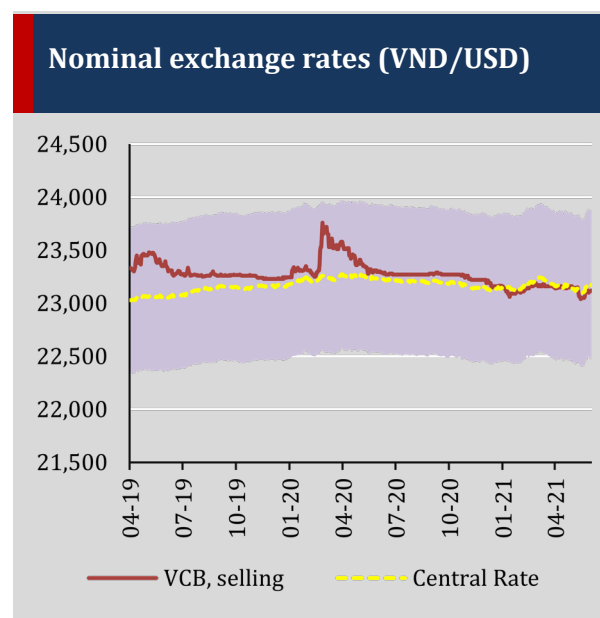
## Asset Market – Financial Market

### *The VND/USD exchange rate at commercial banks stable in Q2*

In the first six months of 2021, the USD/VND exchange rate continued to keep stable when the central exchange rate only increased by 0.2% compared to the beginning of the year, equivalent to an increase of VND 47 to 23,178 VND/USD. The central exchange rate is managed flexibly, following market movements and monetary policy objectives. As a result, the exchange rate and foreign currency market were generally stable. Before the SBV's move to reduce the purchase price of USD, commercial banks simultaneously reduced the USD price to 90-100 VND/USD lower than at the beginning of 2021. The main reason for the SBV to reduce the buying price in USD is to limit the cancellation action of foreign currency forward contracts of commercial banks, which will be implemented in July and August this year. Some organizations believe that the SBV's action to reduce the purchase price of dollars will partly relieve the pressure from import inflation when international commodity prices have skyrocketed in the past time, making the cost of raw imports,

materials of enterprises increased sharply. Notably, the SBV's reduction in foreign currency purchase prices took place when Vietnam witnessed a trade deficit for three consecutive months (from April to June).

Because the State Bank lowered the USD buying rate in November because the USD supply was abundant again thanks to the high trade surplus in Q3.



Source: SBV, VCB

### *The domestic gold price closed follows the fluctuations of the world gold price*

Gold prices in the country and the world fell deeply. Besides, the cost of consumer goods in the US is increasing, leading to the escalation in the price of production materials, which has stimulated gold

investors to invest in other commodities. Accordingly, the investment cash flow in gold is limited. Gold price bears more downward pressure.

The buying power of the gold market is relatively weak when the COVID-19 epidemic is complicated. However, the difference between gold units' buying and selling prices is still pushed to 600,000 VND/tael, and SJC gold is higher than the world to 7.8 million VND/quantity. The number of new, faster-spreading Delta virus infections is causing concern and weighing on the economic recovery. The dollar rallied on the back of US consumer confidence data, which rose to its highest since March 2020. This causes gold to fall further.

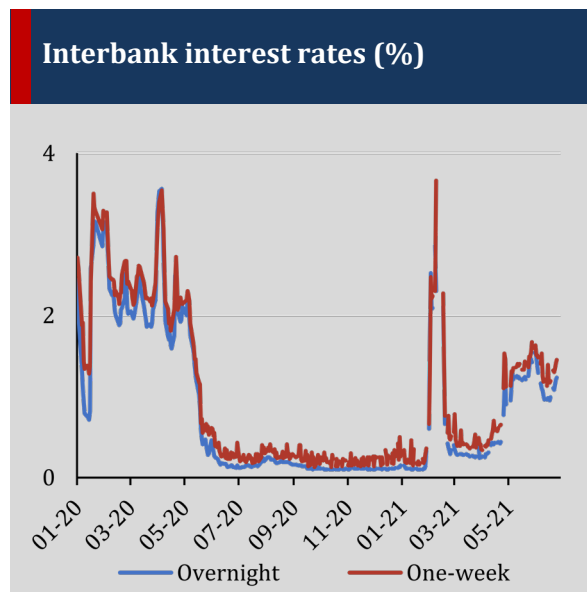


Source: SJC, [www.gold.org](http://www.gold.org)

## Capital and money market

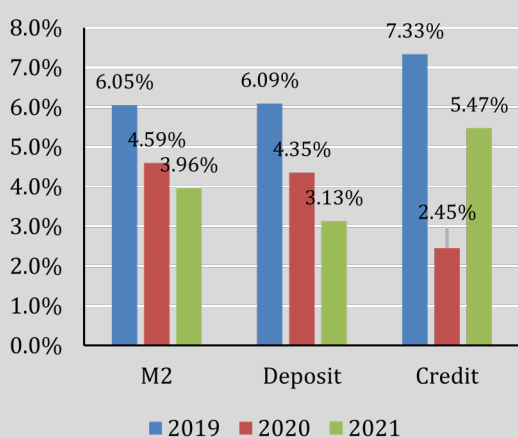
### *Interbank interest rates suddenly increased again*

After maintaining low interest rates in the middle of Q1, interbank interest rates suddenly increased sharply at the end of April 2021, with overnight interest rates reaching a peak of 1.54% on May 31 and one-week interest rates peaked at 1.67% on May 28. However, this is only a seasonal phenomenon due to the lack of local liquidity in some small banks, while the liquidity of the whole system is still relatively abundant. On the other hand, due to the impact of the fourth epidemic, credit demand is expected to decrease. It is



Source: SBV

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



Source: GSO

expected that interbank interest rates will stabilize again in July.

In the first six months of 2021, the SBV will continue to operate interest rates in line with the macro balance, inflation, market movements, and monetary policy objectives, creating conditions to reduce capital costs for people, businesses, and

the economy. The State Bank of Vietnam exempted or reduced interest rates by nearly 1.3 million billion VND. The level of deposit and lending interest rates in April 2021 decreased by about 0.3%/year compared to December 2020. The maximum short-term lending interest rate in VND in some priority sectors and fields is 4.5%/year. The average USD lending interest rate is at 3.0-6.0%/year.

According to the SBV, credit growth in the first six months of 2021 could reach 5.5-6.0%, higher than the growth rate of 3.6% in the first six months of 2020 but still lower than the pre-pandemic growth rate of 7.4% in the six months of 2019.

On the other hand, as of June 15, 2021, the money supply (M2) increased by 3.96% compared to the beginning of the year. Although the gap between loan growth and money supply growth has widened over the past three months, interbank rates have stabilized again in June 2021. As of June 23, 2021, interest rates for overnight, 1-week, 2-week, 1-month and 3-month

terms were respectively at 1.14%, 1.34%, 1.51%, 0.02% and 1.82%.

At the end of June 2021, credit growth increased by 5.47% compared to the beginning of the year. Meanwhile, deposit growth increased by 3.13% compared to the beginning of 2021.

Credit to SMEs remains weak in the first half of 2021. Loans to priority sectors increased by 4.9% in the first half of 2021, indicating a shift in credit growth to priority sectors consistent with overall credit growth. Still, there are significant differences between credit types.

Regarding credit to the risk sector, credit flows to the real estate sector continued to increase at 5.5% compared to the end of 2020 in the first half of 2021. Along with real estate, securities credit increased by 3.0% compared to the end of 2020.

Meanwhile, credit for BOT and BT projects decreased by 1.7% compared to the end of 2020. Consumer loan data has not been released, but the State Bank said that credit in risky segments is still tightly controlled.

In the coming time, it is predicted that the State Bank will continue to maintain a supportive monetary policy to energize the economy in the complicated context of the latest Covid-19 outbreak. However, the slow growth in money supply shows that the State Bank has not used liquidity injection on a large scale and still focuses on selective credit expansion. This implies supporting people and businesses affected by the pandemic with current policies while tightening credit control for risky areas.

### *The vibrant bond market*

In the first six months of the year, the average trading value on the bond market reached 11,622 billion VND/session, up 17.2%.

In the first half of 2021, the State budget has a surplus of about VND 80 trillion; disbursement of public investment capital was slow, reaching only 29% of the plan assigned by the Government. Along with that, in the second half of 2021, the amount of government bonds maturing is only about 38% of the amount developing in the first half of the year, so the demand for issuing government bonds of the State Treasury will not be high. The government bond yields are expected to remain flat at low levels.

By the end of June 30, 2021, the Government bond market on the HNX had a total outstanding debt of VND 1.36 million billion, increasing 0.74% compared to the end of 2020. The average transaction value in the first six months of the year reached 11,611 billion VND/session, up 13.05% compared to 2020; In which Repos transactions accounted for 33.75% of the total transaction value. The proportion of transactions of foreign investors accounted for 1.66%. In particular, foreign investors net bought 9,567 billion dong in the first six months of 2021. In the first six months of 2021, 306 domestic corporate bond issuances with a total issuance value of 186,683 billion dong. There are 293 private issuances with a total issuance



value of VND 177,098 billion and 13 issuances to the public with a value of VND 9,584 billion.

The group of commercial banks still leads with a total issuance value of VND68,113 billion. In which, 85.3% of bonds were issued with a 2 - 4 years term, with a low-interest rate of 3 - 4.2%. Real estate ranked second with a total issuance volume of 61,988 billion dong. Also in the first six months of the year, there were two issuances of bonds to the international market, including Vingroup Group 500 million USD and green bonds of BIM Real Estate Joint Stock Company 200 million USD.

## **ECONOMIC PROSPECTS AND POLICY IMPLICATIONS FOR 2021**

The global economy is on track to recover in the first half of 2021, thanks to expanded national coverage of COVID-19 vaccinations. Some countries are planning to reopen after controlling diseases in Q3. In particular, the economies of the US and China have had the most remarkable recovery since the beginning of 2021. The European economies are still in a state of continuous decline in the first six months of 2021. However, disease control and the expansion of vaccine programs have helped many European countries be open and have signs of recovery.

Vietnam's economic growth in quarter 2/2021 reacted 6.61% (yoy), higher than the previous increase of Q1. This growth rate is based on the following factors: The

Government controlled the epidemic well from the first quarter to help maintain economic activity. The countries of the European Union are reopening and businesses, especially FDI enterprises, make good use of the EVFTA agreement to restore the production process and export goods to the EU market; progress of disbursement and construction of key public investment projects has been accelerated; a wave of shifting investment and trade to diversify risks from commercial conflict US-China and the disruption of the global supply chain; stable macroeconomic environment, inflation control at a low level is to create an environment for the implementation of policies to support growth. However, the resurgence of the COVID-19 epidemic in the middle and end of Q2 continued to disrupt the production process of local businesses that were experiencing outbreaks. On the other hand, the weakness of Vietnam's economy also comes from internal risks such as sizeable fiscal imbalance, slow pace and level of development investment, especially in infrastructure; although the health of the banking-financial system has been gradually strengthened, it is still vulnerable; the heavy dependence of growth on the FDI sector, lack of autonomy in technology and raw materials; low labour quality and slow improvement; low efficiency of public investment; The process of equitization of SOEs has stalled, although the business environment and institutions have been gradually improved,

they have not fundamentally unleashed the power of enterprises.

Given the current epidemic situation, we lower our economic growth forecast in 2021 compared to previous reports. The economic outlook in the last months of the year depends heavily on: i) speed and scale of vaccination; (ii) effectiveness/side effects of disease control measures; (iii) packages to support and promote growth in the country. Based on the actual situation, we make the following forecast scenarios:

Economic outlook in the next months of the year depends heavily on: i) speed and scale of vaccination; (ii) effectiveness/side effects of disease control measures; (iii) packages to support and promote growth in the country. Based on the actual situation, we make the following forecast scenarios:

In the scenario below, we assume that the trade partner and largest investor in Vietnam will successfully deploy the vaccine in early quarter 4/2021 and control the status of reoccurrence, economic activity is restored, and trade tensions and

political uncertainty are calmed. Meanwhile, the epidemic control situation in Vietnam may evolve in different directions.

#### *Normal scenario:*

The epidemic was controlled by the end of Q3/2021, vaccination was deployed quickly, and herd immunity will be achieved in Q2/2022; the macroeconomy remained stable. Economic growth for the whole year is forecasted at 4.5 - 5.1%.

#### *Positive scenario:*

The epidemic was controlled in August 2021, the vaccination will be accelerated, and herd immunity was achieved in the first quarter of 2022; the macroeconomy remained stable. Economic growth for the whole year is forecasted at 5.4 – 6.1%.

#### *Negative scenario:*

The epidemic cannot be controlled, and economic activities cannot return to normal

	Proportion	2019	2020	6M 2021	GDP growth scenarios (%)		
					Negative	Normal	Positive
Agriculture, Forestry, and Fishery	13.5-14.0%	2.01	2.68	3.82	2.5-3.0	3.0-3.5	3.5-4.0
Industry and Construction	36.5-37.5%	8.9	3.98	8.36	4.5-5.5	6.5-7.5	8.0-9.0
Service	38.0-40.0%	7.3	2.34	3.96	2.5-3.0	3.0-3.5	3.5-4.0
GDP		7.02	2.91	5.64	3.5-4.0	4.5-5.1	5.4-6.1



until Q4. The vaccination process is delayed due to lack of supply; policies to support people and businesses, restructuring, and digital transformation will promote, but services, trade, and FDI attraction will be recovered slowly. At that time, Vietnam's economy in 2021 can only grow from 3.5-4.0%.

#### *Policy recommendations:*

Overall, Vietnam's economy is on the rebound in the first 6 months of 2021 but the complicated before the spread of the disease complex in the last quarter 2/2021 and 3/2021 the first quarter, affecting negatively on the lives of people as well as the manufacturing process of the business and the recovery of economic growth of Vietnam. We make the following recommendations:

Firstly, Vietnam needs an overall and consistent strategy to deal with epidemic situations; Inadequacies related to cross-

contamination in isolation areas, medical declaration, disruption in goods circulation due to extreme measures, lack of medical equipment need to be focused resources to solve quickly.

Secondly, the Government and ministries should urgently deploy and disburse support packages for unemployed workers, especially those in the informal sector.

Thirdly, fiscal policy should promote the disbursement of large infrastructure investment projects at the national level as the foundation for the post-pandemic recovery period. Along with that, accommodative monetary policy should be implemented with money supply growth under control at an appropriate level (10%) and risk control measures at a moderate level.

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

## List of acronyms

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, Phan Nhật Quang, Hà Thị Kiều Trinh, Nguyễn Anh Thu, and Nguyễn Quốc Việt.

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### Additional disclosures

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