

Vietnam's 1H GDP Growth

Lowest in decades

GDP growth in 1H 2020 the lowest on record

Vietnam's 1H GDP only rose by 1.8% YoY and down sharply from the 6.8% seen during the same period last year as the coronavirus causes a severe decline in the service sector. Growth was the lowest since 1991, when the General Statistics Office formally began tracking GDP data.

Agriculture & electronics manufacturing the only bright spots in 1H

Agriculture was one of the few sectors to witness any improvements, with rising food demand and focus on rice exports supporting growth. The manufacture of electronics, computers and components also managed to post positive growth in the first six months of the year.

Downgrading 2020E GDP growth to 3.0% from 4.5% on sharp 2Q slowdown

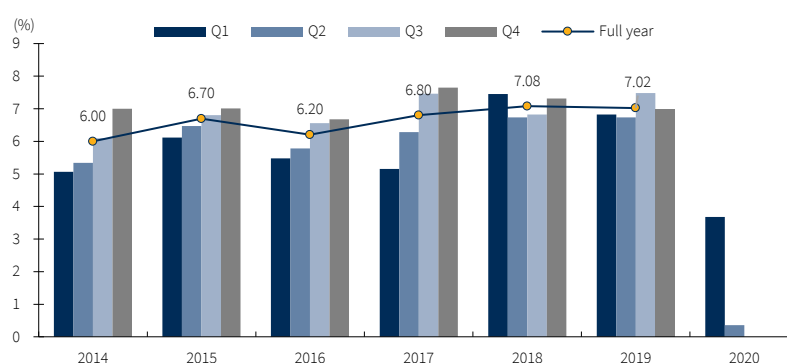
We lower our base case 2020E GDP growth forecast to 3.0% from 4.5% previously due to: 1) steeper-than-expected contraction in 2Q growth; 2) slower trajectory in recovery for 2H; and 3) limited room to cut rates given inflation still running hot at around 4%. Our forecasts now reflect more spillover from the coronavirus into 3Q but we maintain our outlook for a maximum of one more rate cut from the State Bank of Vietnam (albeit this remains contingent on slowing inflation). Overall growth should still be supported by steady recovery in consumer demand, shift in export markets to North Asia and accelerated disbursements of public investment in 2H.

Vietnam's 1H GDP Growth

Coronavirus leads to the lowest GDP growth rate in 30 years

Vietnam's GDP rose by a mere 1.8% YoY for the first six months of the year and the lowest since the General Statistics Office began collecting GDP data in 1991. Quarterly figures were 3.7% YoY growth for 1Q and positive 0.4% YoY growth for 2Q. Vietnam was one of the few countries in the region to maintain positive 2Q growth during the peak of the coronavirus.

Fig 1. Vietnam – GDP growth rate by quarters, Jan 14 – Jun 20 (%)



Source: General Statistics Office, KB Securities Vietnam

Services the hardest hit sector

The COVID-19 pandemic hit the services sector the hardest, especially with the suspension of international flights and April's nationwide lockdown. Services only witnessed a modest increase of 0.6% in 1H and growth was negative 1.8% YoY in 2Q alone. Specifically, 1H retail sales decreased by 0.8% YoY or down 5.3% YoY after excluding the impact of higher prices. The number of international tourists also declined by 55.8%YoY in the first 6 months and plunged by 99% in 2Q.

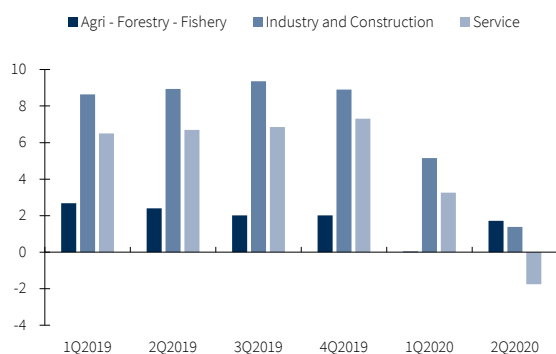
Agriculture, forestry and fishery now make up almost 18% of overall GDP after 2Q's growing contribution

Agriculture, forestry and fishery grew by 1.7% in 2Q and helped support the industry's 1.2% YoY growth in 1H. Most noteworthy was the significant boost in contribution to overall GDP growth, with the agriculture, forestry and fishery industry sharply increasing to 17.7% of GDP in Q2 from 1Q's 10.1%. Agriculture, in particular, grew by 1.7% YoY in 2Q compared with the 1.2% decrease seen in 1Q. Most of the gains in agriculture can be attributed to rising global food demand, with prices for rice and rice export values at multi-year highs (export prices for 5% broken rice are now the highest in eight years and rice exports reached USD1.03 billion in 2Q or a 22% YoY jump).

The manufacturing industry continues to be the driving force behind GDP growth

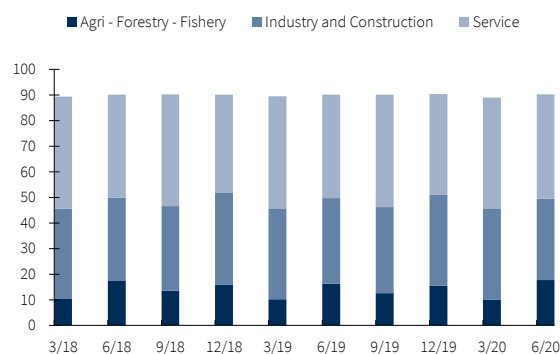
The industry and construction sector grew by 1.4% in 2Q to deliver 3.0% growth in the first six months of the year. This performance mainly came from the manufacturing sector that grew by 7.1% in 1Q and 3.2% in 2Q as well as contributing 1.1 percentage points to Vietnam's overall 1H GDP growth. Electronics manufacturing moved to the forefront in 1H, with the shift to electronics, computers and components (exports for these items rose by 24.2% YoY) from smart phones before. Moreover, the pickup in disbursements for public investments in 1H also helped increase the output in raw materials for the construction industry, such as cement (+4% YoY); and steel bars/shaped steel (+13% YoY).

Fig 2. Vietnam – GDP growth rate by sectors, Jan 19 – Jun 20 (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 3. Vietnam – GDP profile, Jan 18 – Jun 20 (%)



Source: General Statistics Office, KB Securities Vietnam

Lowering 2020E GDP growth forecast to 3.0% from 4.5% previously

We lower our 2020E GDP growth forecast to 3.0% from 4.5% after reflecting 2Q's sharp slowdown. We continue to expect three main drivers to support Vietnam's growth, including: 1) recovery in domestic demand after seeing the early signs of recovery in May and June retail sales; 2) shift in export markets to North Asia, namely China, Hong Kong, Taiwan, Japan and South Korea; and 3) accelerated public investments for the remaining six months of the year.

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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