COVID-19’s Economic Impact on Vietnam Intensifies

Summary

• Vietnam's Government intensified public health measures to combat COVID-19 last week, prompting us to cut our 2020 Vietnam GDP growth forecast from 5% to 4%. We now believe COVID-19 will reduce Vietnam's GDP growth by 3%pts this year.

• The Government’s public health measures have “flattened the curve”, so we expect the outbreak and social distancing measures in Vietnam to subside around the end of Q2.

• We believe COVID-19 will ultimately benefit Vietnam’s economic prospects, and see more evidence supporting this view, including a report published by the US Fed that has positive implications for Vietnam.

Vietnam’s “Lock Down” Intensifies COVID-19’s Economic Impact

The March 16th publication of a report by Imperial College epidemiologist Niall Ferguson that forecast millions of potential deaths from COVID-19 in the US and UK prompted an escalation of public health measures by governments around the world, including in Vietnam.

Vietnam’s Government essentially shut its borders to foreigners on 22 March and imposed a “partial lockdown” on 1 April. Most people are meant to remain in their homes until 15 April, although many businesses including banks, factories, and grocery stores are still operating – albeit with heightened precautions, including the mandatory use of face masks in public, limitations on people gathering, and other measures.1

Flattening the Curve

The Government aims to prevent the number of active COVID-19 cases from surging above 1,000 to avoid overloading the public health system (the official case count is 240 at the time of writing, with no deaths yet attributable to COVID-19). Vietnam has a reasonable number of hospital beds and well-trained doctors (especially in the cities), but is sorely lacking ventilators and other relatively expensive medical equipment. According to government officials and industry executives, the country has 40 ventilators per 1 million population versus 122 in the UK.

Vietnam’s Government immediately responded to the outbreak in January by launching an aggressive public health campaign that emphasized hand washing and the use of face masks, as well as banning flights from China on 1 February. The Government subsequently imposed progressively stricter public health measures, especially

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1 Vietnam is pursuing the so-called "Mitigation Light" strategy to contain COVID-19. There is less traffic in HCMC and Hanoi than usual, domestic flights have essentially been halted, and residents are seriously discouraged from moving between cities, but the city streets are not deserted.
after a cluster of cases that was traced back to “Patient #17” who flew from Europe to Vietnam on 2 March, and another cluster of 15 cases was traced back to a party at a popular expat bar on 14 March.

According to Government reports, there are now nearly 70,000 people in some form of supervised quarantine (i.e., either in centralized quarantine centers or “self-quarantined” at home with random spot checks by local authorities throughout the day).

The health measures outlined above, coupled with the fact that Vietnam’s weather and young demographics do not appear to be conducive to the spread of serious COVID-19 cases in the country lead us to expect that COVID-19 in Vietnam will be fully contained by the end of Q2.²

² Our well-educated guess is based on an exhaustive investigation of hundreds of pages of medical/epidemiological research reports on COVID-19 and other Coronavirus/medical outbreaks. That investigation delved into a range of minutiae about COVID-19 that has not been widely publicized (for example, one widely popularized theory asserts that hot weather will kil
**We Trust the Official Case Numbers**

The official number of confirmed COVID-19 cases in Vietnam is surprisingly low, which we do not think is attributable to a lack of testing. Vietnam has tested nearly 0.1% of its population for COVID-19, versus 0.1% in Turkey, 0.2% in the UK and 0.4% in the US.

We trust the official case numbers if for no other reason than our belief that Government officials would not be able to suppress the news of a significant number of COVID-19 deaths even if it wanted to, and we do not believe there is any motivation to do so, unlike in some countries. The Government does not have the resources to censor the internet like some countries do, and information has always been disseminated very rapidly in Vietnam, even before the advent of social media (nothing major happens in Vietnam that the taxi drivers in HCMC and Hanoi do not know about in short order).

Furthermore, the investment team members at VinaCapital have extensive personal networks that encompass a wide range of contacts in the medical community, including at past and present investee companies in the sector such as hospitals, clinics, and pharmaceutical companies. Each of us directly knows people who have been quarantined, but none of us knows of a single person who has tested positive for COVID-19.

The Government’s transparency and competent handling of the outbreak has also had a positive by-product: Vietnamese citizens have the world’s highest approval ratings of their own government’s handling of the COVID-19 outbreak, according to German’s Dalia Research.

**COVID-19’s Immediate Economic Impact is Still Being Underestimated**

Although we painted a fairly benign picture for the public health impact of COVID-19 on Vietnam above, the economic impact of COVID-19 on Vietnam’s economy in 2020 continues to be underestimated: ³

- In February, we published a below-consensus forecast that Vietnam’s GDP growth would fall from 7% in 2019 to 5% in 2020, with the proviso that there was still downside risk to that forecast. Local economists and analysts are currently cutting their 2020 forecasts to around 5%, but we still see downside risk to our revised 4% GDP growth forecast, partly because of the stunning deterioration of economic conditions in Vietnam’s two largest export markets, the US (25%/exports) and the EU (15%/exports). ⁴

- We expect US and EU policy makers to “do whatever it takes” to avert an all-out depression, and we believe Vietnam has much less downside economic risk from COVID-19 than do the US and Europe, partly because Vietnam came into this crisis in a much better, robust fiscal condition than either the US or EU (in terms of government, corporate and personal finances).

- We have articulated our arguments below on why we expect Vietnam’s economy to continue growing this year (and why the country will prosper in the post-COVID-19 era), but we do not see how Vietnam’s economy can thrive this year while the rest of the world is in near-depressionary conditions. For one

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³ Note that Thailand’s central bank now estimates that COVID-19 will reduce the country’s 2020 GDP growth by -8%pts, and that the country’s manufacturing and tourism sectors have a similar risk exposure to COVID-19 as Vietnam which we discussed in our previous research report on this topic.

⁴ The latest US and EU economic statistics are horrendous, including initial US jobless claims figures that equate to a ~10% unemployment rate (which could be headed to 30%, according to the St Louis Fed), and a collapse in Italy’s PMI from 52 in February to 17 in March, which is being characterized as the worst-ever economic statistic of any developed country.
thing, the dramatic developments in the rest of the world’s economies will depress sentiment among local consumers and businesses.

Finally, we expect the US health emergency to escalate for another 4-5 weeks before peaking, and we think it is unlikely that global stock markets will bottom out until the daily number of new COVID-19 cases in the US peaks and is in a clear downtrend. Accordingly, we believe that Vietnam’s stock market will remain very volatile, which will also weigh on business and consumer sentiment.

**Expect More Government Stimulus Announcements**

The Government has (thankfully!) focused its immediate efforts on containing the virus rather than addressing COVID-19’s economic fallout. Initially, it only announced ~0.5%/GDP worth of fiscal stimulus measures, including some minor tax cuts and the extension of two tax payments.

Last week, the Government proposed some additional fiscal stimulus measures including direct payments to some individuals and subsidized electricity prices, which would bring the total amount of stimulus up to about 2.3%. We expect the magnitude of Vietnam’s COVID-19 fiscal response to increase over the next 2-3 weeks as the scale of the economic emergency becomes evident. Note the Government spent over 5%/GDP to stimulate the economy during the Global Financial Crisis (GFC).

### COVID-Related Fiscal Measures (including loans from the Gvt)

<table>
<thead>
<tr>
<th>No.</th>
<th>Country</th>
<th>As % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Germany</td>
<td>21.1%</td>
</tr>
<tr>
<td>2</td>
<td>Spain</td>
<td>19.4%</td>
</tr>
<tr>
<td>3</td>
<td>Malaysia</td>
<td>16.0%</td>
</tr>
<tr>
<td>4</td>
<td>UK</td>
<td>15.8%</td>
</tr>
<tr>
<td>5</td>
<td>Australia</td>
<td>15.4%</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>15.3%</td>
</tr>
<tr>
<td>7</td>
<td>Canada</td>
<td>10.4%</td>
</tr>
<tr>
<td>8</td>
<td>Singapore</td>
<td>10.3%</td>
</tr>
<tr>
<td>9</td>
<td>Japan</td>
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</tr>
<tr>
<td>10</td>
<td>US</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No.</th>
<th>Country</th>
<th>As % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Thailand</td>
<td>5.7%</td>
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<tr>
<td>12</td>
<td>New Zealand</td>
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</tr>
<tr>
<td>13</td>
<td>Hong Kong</td>
<td>5.3%</td>
</tr>
<tr>
<td>14</td>
<td>South Korea</td>
<td>4.9%</td>
</tr>
<tr>
<td>15</td>
<td>Indonesia</td>
<td>2.9%</td>
</tr>
<tr>
<td>16</td>
<td>China</td>
<td>2.7%</td>
</tr>
<tr>
<td>17</td>
<td>Vietnam</td>
<td><strong>2.3%</strong></td>
</tr>
<tr>
<td>18</td>
<td>Italy</td>
<td>1.6%</td>
</tr>
<tr>
<td>19</td>
<td>Philippines</td>
<td>1.2%</td>
</tr>
<tr>
<td>20</td>
<td>India</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

*Source: VinaCapital*

That said, we continue to believe that the two easiest ways for the Government to support economic growth in 2020 are: 1) immediately ramp up infrastructure spending, and 2) un-freezing the country’s real estate market.

Regarding the former, the Government previously raised an enormous amount of money (circa 6%/GDP) that is earmarked for the development of the country’s physical infrastructure. However, due to a range of internal issues, this money was deposited into the nation’s banking system rather than disbursed on badly needed projects.

Regarding the latter, Vietnam’s real estate market has suffered from a dearth of activity over the last few years due to an on-going corruption crackdown discussed in some of our previous research reports (the problem intensified since the publication of those reports, as has the unmet demand for housing by emerging middle-class consumers over the last two years).

**Vietnam’s Exposure to a Global Economic Slow Down**
There is a growing consensus that the US’s GDP will shrink by about 5% in 2020 (versus -2.5% in 2009), and that COVID-19 will significantly depress global economic growth over the next two years.

Vietnam is the most open large economy (i.e., not a city-state) in modern history, so investors are understandably concerned about the impact that a protracted global slowdown could have on the country’s growth and on the value of its currency. We believe Vietnam is relatively well positioned to weather the storm and very well positioned to prosper in the aftermath of COVID-19.

**Resilient Export “Barbell”**

The composition of Vietnam's exports has a unique “Barbell” structure, in which about 60% of the products the country exports are “low value add” products such as garments and cheap furniture that are sold to cost conscious shoppers through outlets like Wal-Mart in the US, and Carrefour in France, while about 40% of the country’s exports are of higher value-added products, including smart phones (nearly 20%/exports), digital cameras, and other consumer electronics.

### Key Exports Categories - As % of Total Exports (2019)

<table>
<thead>
<tr>
<th>Category</th>
<th>% of Total Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Tech</td>
<td>33.0%</td>
</tr>
<tr>
<td>Garments &amp; Footwear</td>
<td>20.9%</td>
</tr>
<tr>
<td>Soft Commodity</td>
<td>9.3%</td>
</tr>
<tr>
<td>Machinery &amp; equipment</td>
<td>6.9%</td>
</tr>
<tr>
<td>Wood and wooden products</td>
<td>4.0%</td>
</tr>
<tr>
<td>Transportation vehicles</td>
<td>3.2%</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>1.6%</td>
</tr>
<tr>
<td>Cameras and spare parts</td>
<td>1.4%</td>
</tr>
<tr>
<td>Plastic products</td>
<td>1.3%</td>
</tr>
<tr>
<td>Crude Oil</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

*Source: Vietnam Customs*

This composition is an artifact of successive waves of FDI into the country. This started about 15 years ago, with investments into the production of garments and other low value-added products for companies like HK-based Li & Fung, and followed by investments into the production of high-tech products for companies like Samsung and Panasonic in recent years as those companies moved their factories from China to Vietnam to save costs and to circumvent the US-China trade war.

We expect exports of the low-end products that Vietnam produces to hold up well over the next two years because of the increased demand for such products by cost-conscious shoppers in developed markets, which is exactly what happened in 2009. We also expect Vietnam’s high value-added export growth to surge from 2021, which is discussed below, although this surge will not help support the country’s economy in 2020.

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5 Harvard University economist Robert Barro published an academic paper two weeks ago estimating that the Spanish Flu reduced GDP growth by about 6%pts in several of the world’s major economies at that time (stripping out the effect of WWI), while research by other economists indicate that it took about two years for the US economy to return to normal after 9/11.

6 Wal-Mart was one of the only big US companies that did not suffer a large stock price drop in the GFC, reflecting consumers’ increased demand for affordable products during an economic slowdown.
Furthermore, the multinationals that produce these products (or source them from countries like China or Vietnam) will be under tremendous pressure to cut costs over the next two years. This will prompt those firms to shift production to low-cost countries like Vietnam.

The Impact of Slowing Exports on Vietnam’s Economic Growth

We argued above that Vietnam’s exports should remain relatively resilient in the nascent economic melt-down. But we also believe that a modest drop in the country’s exports will have a less negative impact on GDP growth than one would expect.

Vietnam’s exports/GDP ratio is around 100%, and imports/GDP are also around 100%, which means that Vietnam imports high-value components that are made in China, Korea, and Japan, and then the country’s low-wage work force assembles those components into the finished smartphones products, digital cameras, and others that are sold to end-customers. This activity does not actually add much value to the country’s economy, although it does employ many people, and it provides a path for Vietnam to become wealthier in the future as local firms start to make more-and-more of those high-value components.

For that reason, a slowdown in Vietnam’s exports has less of an impact on the economy than would a comparable magnitude slowdown in tourist arrivals. The value that Vietnam captures from each dollar that foreign tourists spend in the country is higher than that earned by assembling products for export by profit-maximizing multinationals. 7

Finally, about 18% of Vietnam’s workforce is employed in the manufacturing sector, versus 40% in the agriculture sector. We do not expect the global economic slowdown to trigger mass layoffs in the manufacturing sector because we still expect the sector’s output to grow this year for the reasons discussed above and because a meaningful proportion of the products the sector produces are consumed domestically; we do not expect a major plunge in domestic consumption in 2020.

However, there will clearly be many dislocations throughout this painful period. For example, laid-off workers in garment factories may not be suitable for the new jobs that we expect to be created in the construction sector as infrastructure projects get ramped up.

The Limited Impact of COVID-19 on Vietnam’s Currency

Prior to the COVID-19 outbreak, we were forecasting the commencement of a prolonged appreciation in the value of the VN Dong starting from 2021. This was based on the fact that Vietnam’s current account surpluses and FX reserve accumulation over the last nine years closely followed (and even outperformed) China’s during the 10-year lead up to a multi-year appreciation that ultimately lifted the value of the Yuan by about 25%.

We will need to reassess the VN Dong’s prospects after the immediate impact of the COVID-19 crisis on the world’s economy abates, but we do not expect a major depreciation like the 20% drop in the value of Vietnam’s currency in 2009-2011, which was driven by a litany of home-grown problems that coincided with the GFC. In fact, the value of the VN Dong has been much more stable than its regional peers this year, as we outlined in a report published on 23 March.

In short, the State Bank of Vietnam accumulated USD20 billion in FX reserves in 2019, and another USD5 billion in reserves YTD, bringing its total up to USD85 billion or 33%/GDP. To put those two figures in context: 1) Vietnam’s total accumulated FII inflows amount to ~USD30 billion, almost half of which was invested in illiquid investments (e.g., private equity, strategic stakes in listed companies), and almost none of which was in Vietnam Government Bonds, so there is no possibility that “hot money” outflows can deplete Vietnam’s FX reserves (nor can short-

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7 Based on Vietnam’s 2008-2010 experience, we expect tourist arrivals to start rebounding from mid-2021, after the medical issue has completely abated but before the global economy begins to recover when tourists from developed countries will seek lower-cost holidays by visiting countries like Vietnam.
term, external debt, which is very manageable), and 2) China’s FX reserves were 33% of GDP just before the Yuan commenced the 7-year appreciation mentioned above.

Two other important reasons to expect the VN Dong to weather the current economic crisis well (that are not covered in our earlier report) are:

1) The main driver of Vietnam’s balance of payments surpluses in recent years are ~7%/GDP FDI inflows and an additional ~6%/GDP of remittances inflows, and not trade surpluses, which averaged 1%/GDP over the last five years.

2) Vietnam’s policy makers appear to be targeting a stable USD-VND exchange rate in order to foster continued investment inflows and are thus following the strategy that helped China attract a tsunami of investment inflows in the 2000s.

Further to the first point above, both FDI and remittance inflows will slow down this year, but will then almost certainly accelerate significantly from 2021. Note that unlike the Philippines, most remittance inflows to Vietnam are actually small-scale capital inflows from the middle-class Vietnamese diaspora in the US, rather than money sent home from manual laborers who are working abroad. Those middle-class diaspora investors - like all US investors - will face terrible investment returns within the US over the next decade due to the “Japanification” of the US economy (which is discussed below).

Further to the second point above, China’s government expended huge resources in order to maintain a stable value of the country’s currency after the 1997 Asian financial crisis, which was one of the factors that paved the way for the enormous FDI inflows into the country in the 2000s. We believe Vietnamese policy makers understand this very well and have been advised by some of the same people at the Harvard Kennedy School who promoted this idea to Chinese policy makers during the Asian Financial Crisis (the Vietnamese resolve to pursue this “stable VN Dong” strategy seems to have intensified after the 2015 turmoil in the Chinese Yuan and VN Dong FX markets).

**COVID-19 Will Ultimately Benefit Vietnam**

- In recent years, multinationals like Samsung, LG Group, and a plethora of Japanese manufacturers have been moving factories from China to Vietnam, or have been establishing new production facilities in Vietnam rather than in China.

- When the US-China trade war broke out, we were among the first to predict that the trade war would accelerate the movement of production facilities from China to Vietnam, and we expect the COVID-19 outbreak to accelerate companies’ efforts to re-locate production out of China, partly because the trade war will intensify after the COVID-19 medical emergency abates.

- Firms like Foxconn and other Apple suppliers have indicated that they intend to set up production facilities in Vietnam. However, we do not think most observers have yet realized the extent to which multinationals will not only continue setting up production facilities in Vietnam, but will also have a much greater incentive to help foster the development of local supply chains going forward.

- Some companies have been reluctant to move production facilities from China to Vietnam in the past because supply chains in Vietnam lack depth. Given the severity of what the world is experiencing right now, coupled with concerns about China's handling of the COVID-19 outbreak, FDI companies will be prompted to not only continue establishing new factories in Vietnam, but to also start imbuing local suppliers with much more technical and operational expertise in order to support the production of those multinationals in Vietnam.
Finally, a research report published by the San Francisco Fed last week titled “Longer-run economic consequences of pandemics” has two positive implications for Vietnam:

1) Wage Inflation tends to increase after a pandemic subsides, which would encourage manufacturing firms to relocate factories from China to Vietnam and Southeast Asia, instead of repatriating production to the US (we expect the auto parts industry to relocate from China to Mexico, and for a sizable proportion of the multinational electronics industry to relocate from China to India and Southeast Asia).

2) Investment Returns tend to plunge in the decade following a pandemic (unlike after a war), which together with the so-called “Japanification” of the US economy will ensure a wave of FII inflows into select Frontier and EM stock markets (including Vietnam’s) for years to come.

That last point will be the subject of an upcoming research report that we will publish in conjunction with VinaCapital’s equity research team, but the short story is that the US stock market is entering a period in which the Federal Reserve’s own models predict zero real returns over the next decade, and the Fed’s model does not even consider the fact that US stock buybacks, which drove stock price increases over the previous decade, will be proscribed by the terms of the bail-outs that many US companies will receive in the months ahead.

The Impact of COVID-19 on Vietnam’s 2020 GDP Growth

We expect COVID-19 to reduce Vietnam’s GDP growth by 3%pts this year (and now expect 4% yoy growth in 2020), attributable to:

- 1.5%pts hit to growth from a 50% drop in tourist arrivals
- 1%pts hit to growth from slower manufacturing output growth
- 0.5%pts hit to growth from slower domestic consumption growth

We cut our 2020 GDP growth forecast by 2%pts in February, but the Government intensified its public health measures over the last two weeks, and we now have another four weeks’ worth of information about how COVID-19 is impacting Vietnam’s economy, including high frequency economic data, information garnered from our network of industry contacts, and the information embedded in the release of Vietnam’s Q1 GDP statistics. 8

In short, Vietnam’s GDP growth fell from 6.8% yoy in 1Q19 to 3.8% in 1Q20, with the 3%pts drop attributable to slower manufacturing growth (which we estimate reduced GDP growth by 1%pts), to slower domestic consumption growth (0.7%pts hit to GDP growth), and to an 18% yoy plunge in tourist arrivals (-0.7%pts). 9

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8 We use high frequency data to substantiate the headline GDP growth and inflation statistics published by the General Statistics Office (GSO) because there are sometimes anomalies and incongruities in the GSO’s figures. However, there is not a concerted effort to “massage” the country’s economic statistics, evidenced by the fact that we uncovered calculation errors in the past that have either modestly overstated or understated the reported figures.

9 Please contact us directly for the detailed calculations entailed in the formulation of these estimates.
Tourism
Vietnam’s tourist arrivals collapsed from 7% growth in 1Q19 to an 18% drop in 1Q20, which we estimate reduced the country’s GDP growth by 0.7%pts, but we expect tourist arrival growth to plunge from +16% in 2019 to -50% in 2020, so we scaled up the -0.7%pts hit to GDP in Q1 by a factor of 2.6x to arrive at our estimate that a 50% plunge in tourist arrivals will reduce growth by 2%pts this year.\(^9\)

We do not expect any improvement in tourist arrivals this year or next, but we also do not expect a further drop in tourist arrivals next year, which means that falling tourism arrivals will not drag Vietnam’s GDP growth rate lower in 2021.

Manufacturing

- In our February report on COVID-19’s impact on Vietnam’s economy, we were concerned about supply side issues that could impede the ability of local factories to secure the inputs needed to produce their products since about one-third of the inputs that factories in Vietnam require to make their products come from China.

- Our concerns have obviously flipped from the supply side to the demand side, given that China is making an aggressive push to resume its own industrial activity (irrespective of potential public health consequences), and given the dramatic collapse in demand around the world. We nevertheless expect firms to immediately shift some proportion of their production from higher cost domiciles (like China) to Vietnam to trim costs.\(^\)\(^\)\(^10\)

- Garment production has been the most impacted by the global COVID-19 slowdown so far, with exports down about 9% yoy. Industry insiders have said that about 20% of garment makers’ orders have been cancelled. In contrast, Vietnam’s mobile phone production and exports are still up marginally this year, although Samsung announced last week that it expects its exports from Vietnam to drop 11% in 2020.

- The availability of factory workers remains a non-issue for manufacturers in Vietnam. The Government’s “lock down” measures were fashioned to avoid impeding the activities of FDI companies, although a new requirement for factories to do regular deep cleaning of their production facilities could have a modest effect on productivity.

- The manufacturing sector in Vietnam is operating at a reduced pace (growth fell from 12.4% in 1Q19 to 7.1% in 1Q20), but manufacturing output growth does not appear to be plunging in either Vietnam or globally as evidenced the release of manufacturing PMI figures in a variety of countries over the last two

\[+16\% - (-50\%) = +0.7\%pts \approx -1.5\%pts\]

\(^{10}\) In our understanding, manufacturing companies are able to sustain extraordinarily high boosts of production at times, which is evidenced by the recent 20% yoy surge in Taiwan’s industrial production (versus negative growth earlier this year), which was presumably necessitated by supply chain issues in China.
weeks that were stunningly good compared to plunging service sector PMIs. For that reason, we expect a further modest deterioration of Vietnam’s manufacturing output growth in Q2, followed by a leveling out of growth at around the 7% level for the rest of the year.

**Domestic Consumption – How Will Vietnam “Re-Open” in H2?**

- We mentioned above that slower domestic demand/consumption growth probably reduced Vietnam’s GDP growth by 0.7%pts in Q1, and that we expect slower domestic consumption growth to reduce Vietnam’s 2020 GDP growth by 0.5%pts, which implies that demand conditions will improve later in 2020. Obviously the Government’s intensified public health measures will reduce domestic consumption in Q2, but we do not expect a full recovery in domestic economic activity until the end of the year, despite the fact that “normal life” should resume in Q3 after Vietnam’s COVID-19 outbreak subsides.

- While the Government’s aggressive public health campaign started in late January, it does not appear that consumer behavior in Vietnam started meaningfully slowing until mid-February (i.e., the number of customers in restaurants started to thin out a bit and consumers started reining in “big ticket” purchases). Furthermore, the country did not really suffer the full brunt of COVID-19 until March, during which economic activity steadily plunged culminating with the modified nationwide “lock down” on 1 April.

- Slower domestic consumption growth reduced Vietnam’s GDP growth by about 0.7%pts in Q1, but the country only really endured the full brunt of COVID-19 for about one month during Q1, so we expect a continued plunge in domestic consumption to slice 2%pts off GDP growth in Q2. That forecast is predicated on the continued “partial lockdown” of the country for the whole month of April (i.e., past the previously announced 15 April deadline), followed by continued draconian restrictions in May (e.g., Vietnam Airlines has told international passengers that it does not expect to resume flights until the end of May).

- We expect the months of June and July to be a mirror image of February and March, in that public health

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12 Note that: 1) Manufacturing PMIs in the US, Germany and other countries may have been boosted by stockpiling, and by the accelerated production of medical-related goods, and 2) Vietnam’s PMI fell from 49 in February to 41.9 in March.

13 We used the word “estimate” above because the number of foreign tourists in Vietnam has been so large in recent years (nearly 20% of the country’s population) that it is difficult to disaggregate the consumption of urban locals versus tourists in the Government’s economic statistics.
restrictions are likely to be successively lifted starting from the beginning of June until everyday life is finally “back to normal” from mid-July. However, we also expect the domestic mobility of people to continue to be impeded until late Q3. At present, we understand that goods can still be transported from province-to-province, but it is unclear when long-distance busses and domestic flights will re-start.

- There are strong reasons (including “Quarantine Fatigue”) to expect a “V-Shaped” recovery in the domestic demand for goods and services by local consumers immediately when the country re-opens. However, we do not think the economy will be able to fully meet those pent-up demands because there will probably still be some hesitation (and possibly restrictions) to travel domestically, and because some “mom and pop” businesses will not survive Q2, limiting the economy’s ability to satisfy pent up demand. For that reason, domestic consumption is likely to be lower than domestic demand in Q3.

- We expect domestic consumption growth to subtract 2%pts from GDP growth in Q2, but then add 0.5%pts to GDP growth in Q3, and 1%pts to growth in Q4 (after having subtracted an estimated 0.7%pts from Q1 GDP growth).

**What We Expect for the Rest of 2020**

The “Bottom Up” analysis above translates into the following quarterly growth rates throughout the year (please feel free to contact us directly for our calculations):

<table>
<thead>
<tr>
<th>2020 Quarterly GDP growth (%)</th>
<th>Q1*</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.8%</td>
<td>0%</td>
<td>5%</td>
<td>7%</td>
<td></td>
</tr>
</tbody>
</table>

(* Actual growth

A “top down” double check of our 0% GDP growth forecast for the current quarter can be made by observing that COVID-19 fully impacted the economy for about one month in Q1, which reduced growth from 6.8% yoy in 1Q19 to 3.8% in Q20. Since we expect COVID-19 to fully impact the economy for a bit longer than two months in Q2 (with normal economic activity resuming throughout the month of June), and since COVID-19 reduced GDP growth by about 3%pts last quarter, it is reasonable to assume that Vietnam’s economic growth will fall by about 7%pts from 6.7% yoy in 2Q19 to 0% in 2Q20.

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