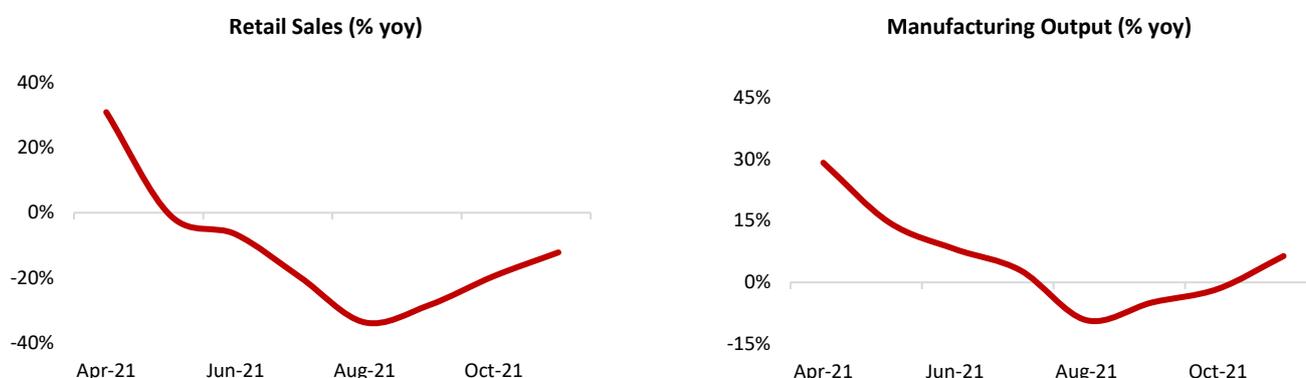


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## Vietnam's Economy Rebounds

Vietnam's major cities endured some of the world's strictest COVID lockdowns from the beginning of July to the end of September. The country began reopening in October, when the Government's approach shifted from "Zero COVID" to "Living with COVID". This change was motivated by a realization that economic immobility had a detrimental effect on people's lives and social stability, and was enabled by a drop in COVID cases and a sharp acceleration of vaccinations.

As expected, the re-opening drove a sharp rebound in the country's economy. The easing of social distancing and mobility restrictions prompted a surge in retail sales – which is a close proxy for domestic consumption – although we estimate that domestic consumption is still more than 10% below pre-COVID levels. Manufacturing activity also experienced a "V-shaped" recovery, especially at FDI factories in the industrial suburbs of HCMC, which had been hit particularly hard by social distancing restrictions.



Further to that last point, the epicentre of Vietnam's Delta variant outbreak was in southern Vietnam, so we estimate that production at factories in the south dropped 10% yoy in August and September, despite some extraordinary steps taken by some manufacturers. Production at factories in the north (where the Delta variant first emerged in the north of Vietnam<sup>1</sup>, prompting about three weeks of production disruptions in July) continued to grow 20% yoy.

### Back to Work

It was widely publicized that many workers in southern Vietnam returned to their hometowns as soon as travel between provinces was re-established in October, and that some of those workers had not yet returned to their jobs, creating a worker shortage at some companies. However, in our understanding, over 90% of the factories in the industrial suburbs of HCMC are operating, and over 80% of the workers in those factories have returned to their jobs, although the largest furniture producer in the country recently told the *Nikkei* news service that only 70% of its workers had returned.

We expect all workers to be back to work within the next two months, partly because some factories are offering employees incentives to return. Also, the Government's aggressive vaccination campaign, as well as the roll-out of highly effective COVID treatments are giving employees confidence to return to work.<sup>2 3</sup>

Some factories are offering modest "rehiring bonuses" and most companies in Vietnam pay a bonus equivalent to one month's salary to employees in the lead-up to the Lunar New Year holiday, which is at the beginning of February 2022. Regarding vaccination, the proportion of Vietnam's population who are fully vaccinated surged from 3% at end-August to over 50% now, versus 39% in the Philippines, 34% in Indonesia, and 58% in Thailand. Furthermore, the surge has been even more dramatic in the industrial suburbs of HCMC, where approximately 94% of the population is fully vaccinated, as many workers participated in mass-vaccination campaigns facilitated by their employers.

<sup>1</sup> Note that FDI factories in northern Vietnam produce smart phones, consumer electronics, and other high-tech products while FDI factories in southern Vietnam produce a higher proportion of low value-added exports, including garments, footwear, and furniture.

<sup>2</sup> <https://e.vnexpress.net/news/news/trial-of-merck-s-covid-drug-in-vietnam-records-zero-deaths-health-ministry-4382299.html>

<sup>3</sup> <https://en.vietnamplus.vn/vietnam-able-to-produce-covid19-treatment-drug-molnupiravir/216035.vnp>

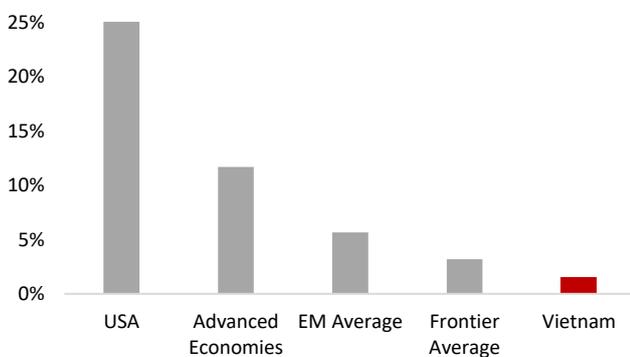
Finally, at the height of the Delta outbreak, it was reported that some FDI manufacturers were considering relocating production out of Vietnam. That story is now completely dead, and some companies, including Nike, have even announced their intention to *expand* their production in Vietnam.<sup>4</sup>

**Strong Prospects for 2022, Driven by Fiscal Stimulus, Infrastructure Spending, and Tourism**

We expect Vietnam’s reported GDP growth to surge from 2.5% in 2021 to over 7% in 2022 driven by a partial resumption of foreign tourism, a surge in infrastructure spending, and a new, 10%-of-GDP fiscal stimulus package that the Ministry of Planning and Investment is currently formulating and is likely to be announced in early January 2022.

Further to that last point, Vietnam’s Government has done less than some of its peers to stimulate the country’s economy, despite having ample fiscal resources to do so. The country’s Government debt-to-GDP ratio is below 50%, and Vietnam actually ran a government budget surplus equivalent to over 1% of GDP in 10M21. The Government is reportedly working on a USD35 billion fiscal stimulus package to be spent over 2022-23, which could include direct payments/financial support to both people and SMEs impacted by the pandemic, as well as tax cuts and subsidized interest rates on bank loans.

COVID Stimulus/Aid as a % of GDP



Vietnam’s First Foreign Tourists Since COVID Emerged



Next, the Government previously announced that it would increase infrastructure spending by 40% over the next five years compared to the previous five years, and infrastructure spending surged by nearly 20% month-on-month in October. It’s not clear yet if the USD35 billion figure mentioned above includes infrastructure spending, but we expect infrastructure development to make a major contribution to Vietnam’s GDP growth in 2022 and beyond, which we discussed in [this report](#).

Finally, foreign tourism accounted for about 8% of Vietnam’s GDP pre-COVID but will obviously make essentially no contribution to the country’s economy this year<sup>5</sup>. A partial resumption of tourism in the second half of 2022 would make a surprisingly large contribution to Vietnam’s GDP growth because of the way the arithmetic works (i.e., a full resumption of foreign tourism for just half of 2022 would boost Vietnam’s GDP growth rate by 3-4%pts).

We previously expected the Government to begin piloting a resumption of foreign tourism after the Lunar New Year holiday in February, but on November 17<sup>th</sup>, the first group of international tourists arrived from South Korea, as can be seen in the exhibit above, on the right. That group was immediately followed by several more groups, including tourists from the US and Canada.

**Conclusion**

Vietnam’s economy re-opened at the beginning of October following three months of severe COVID lockdown measures. The re-opening powered a “V-shaped” recovery in the country’s domestic consumption and manufacturing activities and we expect a significant, further acceleration in GDP growth next year to above 7%.

The Government is currently formulating a 10%/GDP fiscal stimulus program which will support Vietnam’s economic recovery in 2022-23 and announced plans to increase infrastructure spending earlier this year. Finally, we expect a partial resumption of foreign tourism from the second half of next year to make a major continuation to GDP growth in 2022.

<sup>4</sup> <https://vietnamnet.vn/en/business/nike-to-expand-operations-in-vietnam-789243.html>

<sup>5</sup> Note that foreign tourism previously contributed ~8% to Vietnam’s GDP, domestic tourism contributed another 4%/GDP, and the total contribution to GDP was even larger than 12%/GDP because of the indirect contribution of tourism.

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