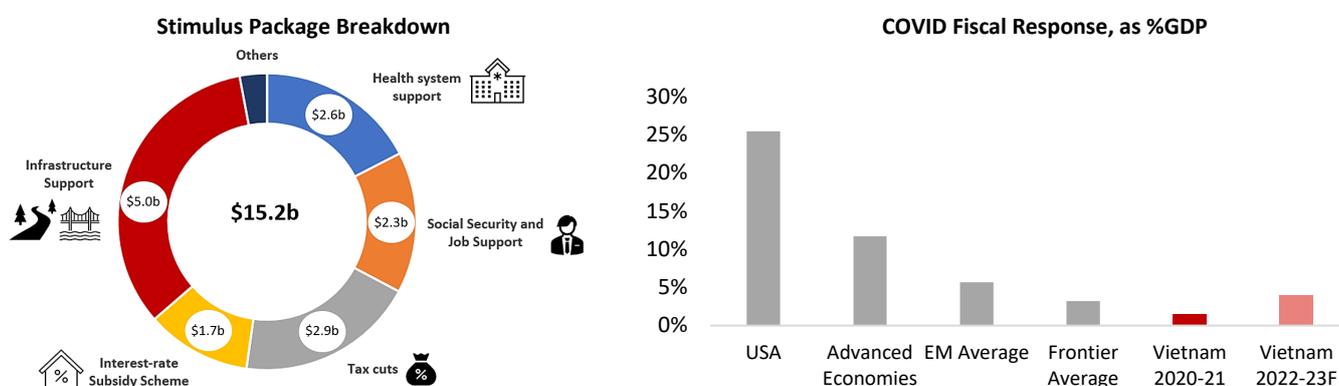


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Fiscal Stimulus Package to Support GDP Growth in 2022

We are very optimistic about Vietnam's GDP growth in 2022 because we expect a vigorous rebound in consumption this year as the country's re-opening boom, which started when COVID lockdowns were lifted in Q4, is set to continue in 2022. Additionally, the Government finalized a USD15 billion (approximately 4% of GDP) fiscal stimulus package in January that will also help boost Vietnam's economic growth this year.

The stimulus package includes a variety of measures and initiatives spread over 2022-23 that are discussed below. The largest part of the package entails a major ramp-up in infrastructure spending, as can be seen in the chart below on the left. The chart below on the right illustrates the fact that Vietnam's Government has not needed to spend as much as most other countries¹ because of the intrinsic strengths of Vietnam's economy, although the new stimulus package is considerably bigger than Vietnam's previous COVID support measures, which helped boost sentiment among Vietnamese stock market investors recently.



This report discusses how the most salient measures in the new fiscal stimulus growth will boost Vietnam's economy in the short- and long-terms, plus the package's implications for investors. Finally, in our "Looking Ahead at 2022" report (which can be found [here](#)), we predicted that Vietnam's GDP growth will be very strong in 2022, driven by a rebound in domestic consumption. We stand by that forecast, and Vietnam's latest macro-economic statistics support that thesis; the fiscal stimulus package will also make a meaningful contribution to GDP growth this year.

Specifically, the new COVID support package will be especially beneficial for Vietnam's construction sector, which accounts for 6% of the country's economy; we now expect construction activity in Vietnam to grow over 10% in 2022, up from less than 1% in 2021. Finally, we also note that most of the measures in the package that are not directly linked to infrastructure development can be characterized as supporting individuals (e.g., VAT reduction) or supporting businesses (e.g., subsidized interest rates).

A Plethora of Measures to Support Vietnam's Economy

The measures in the new fiscal stimulus package that will have the most immediate impact on the economy (in order of impact) are USD5 billion of spending on infrastructure, USD2.9 billion to fund a value added tax cut in 2022, the USD1.7 billion that the Government will spend to subsidize the interest rates extended by the country's commercial banks on certain loans by 2%pts, and the USD2.3 billion "Social Security and Job Support" component of the plan.

We have not included the USD2.6 billion "Healthcare System Support" component of the plan because about USD2 billion of that money will be used to import COVID vaccines, which will not directly support the economy as the money will flow out of the country, while the remainder is earmarked for endeavours such as constructing new hospitals and/or expanding existing hospitals – all laudable projects that will probably take some time to get off the ground.

¹ Vietnam's Government essentially ran a budget surplus in 2021, which was nearly 2% of GDP as of 11M21, although the final full year figures are not available yet, and it appears that the Government put aside ~USD20 billion at the end of 2021 for future infrastructure spending.

Major Infrastructure Push

The USD5 billion Infrastructure component of the fiscal stimulus plan is focused on “*nationally important transportation projects*”, and Vietnam’s North-South Highway is the most important transportation project in the country, by far. Over 90% of the infrastructure spending in this package is earmarked for transportation spending, and 70% of that is set to be spent on the North-South Highway). Below is a chart of the current progress/status of the construction of the highway.

North – South Highway Map



The significance of the North-South Highway cannot be overstated, in our view. In the short-term, the accelerated construction will boost the profits (and share prices) of construction companies, as well as of construction materials companies. However, in the medium-to-long term, this highway will make it feasible for FDI companies to establish new factories far from the long-standing industrial centers in the periphery of HCMC and Hanoi, where wages have been increasing at a circa 7% annual rate for years. Going forward, firms will be able to build new factories in the countryside, where the majority of workers are still employed in the agriculture sector.

The new highway will obviously also boost real estate prices in many regions, will foster the further development of satellite cities outside of HCMC, Hanoi, and even Danang, and will help lower logistics costs in Vietnam, which at 20% of GDP rank among the highest in the world.

Other Components of the Plan

The Government will cut Vietnam’s VAT rate from 10% to 8% for most products in 2022, which should further propel the consumption boom that started when the economy re-opened at the end of October 2021. The Government will also subsidize the interest rates on about USD44 billion of loans to businesses (or ~10% of Vietnam’s total outstanding loans) by 2%pts for two years (over 2022-23), although the exact details of this loan subsidy program have not yet been ironed out (we assume that the Government will target sectors of the economy with high strategic importance, or that employ a lot of people, such as export-oriented manufacturing and agriculture).

The USD2.3 billion “Social Security and Job Creation” component of the plan includes about USD500 million of direct support towards the rent and interest payments for low-income workers, especially those working in industrial parks, and in other sectors of the economy that the Government especially wants to support. In our understanding, the remainder will serve as a credit backstop for the borrowings of the Vietnam Bank for Social Policies (VBSP), which in-turn provides microfinance to the poor and helps further the development of cottage industries in rural areas.

Conclusion

The combination of the on-going rebound in domestic consumption and the Government’s new 4% of GDP fiscal stimulus package gives us confidence in our optimistic forecast for Vietnam’s GDP growth in 2022. That optimism is reflected in the investment strategies of our actively management portfolios. Our offshore funds VOF, VVF, and VAF are overweight beneficiaries of a vigorous rebound in GDP growth, such as consumer discretionary companies, as well as overweight beneficiaries of increased infrastructure spending, such as construction firms and companies that produce construction materials. We believe certain companies in these sectors will do very well as Vietnam’s strong growth momentum continues to gain traction.

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