



ASIA PERSPECTIVE

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Vietnam Economic Update Report

This Issue:

Vietnam's Economic Performance in Q2 2021
FDI as the key driver for Vietnam's economic
growth

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Vietnam's GDP increased by 6.61% in Q2 2021, indicating the nation's economic recovery

Despite the complications of the pandemic in the past few months, Vietnam's economy witnessed a 6.61% GDP growth in the second quarter of 2021, slightly falling behind the projection of 7.11%. Overall, the GDP in the first six months of 2021 increased by 5.64%, mainly driven by the growth of the Processing and Manufacturing sector.

Vietnam's Gross Domestic Product (GDP) in the second quarter of 2021 recorded a 6.61% growth (YoY), higher than the growth rate of 0.39% in the second quarter of 2020 but lower than the growth rate of 6.73% in the second quarter of 2019.

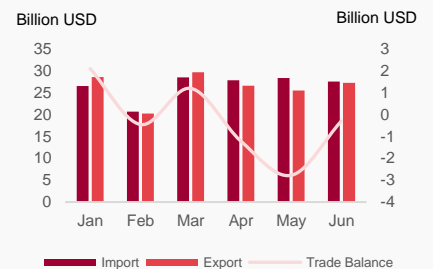
In general, in the first six months of 2021, Vietnam's economy expanded 5.41%, marking a jump of 1.82% in the same period of 2020 but lower than the growth of 7.05% and 6.77% in 2018 and 2019. Although the growth rate is slightly lower than the 7% projection, it still demonstrated Vietnam's potential economic growth.

In the overall growth of the country's economy in the first half of 2021, the Agriculture, Forestry and Fishery sector increased by 3.82% (YoY); the Industry and Construction sector increased by 8.36%. The processing and manufacturing sector continued to play a leading role in the growth of the economy with an increase of 11.42%, while service sector increased by 3.96%.

The average CPI in the first half of the year increased at the lowest rate since 2016

Vietnam's CPI increased by 0.19% in June 2021, compared to previous month by 2.41% compared YoY. Surging prices of raw materials and the increase in electricity and water prices in accordance with consumer demand are the main reasons behind the increase of CPI. Overall, the CPI growth in the first six months of 2021 amounts to 1.47% (YoY), which is the lowest increase since 2016.

Trade witnessed a deficit in the first six months



Source: Vietnam's Custom Statistics

In the first six months, the total import and export turnover reached 316.73 billion USD, up 32.2% (YoY). Exports reached 157.63 billion USD, up 28.4% (YoY) while imports reached 159.1 billion USD, up 36.1% (YoY). Vietnam's balance is therefore estimated to have a deficit of 1.47 billion.

FDI as the key driver for Vietnam's economic growth

With a notable breakthrough in attracting FDI, despite the complicated COVID developments, Vietnam continues to become one of the most successful FDI attracting countries in the region, becoming an attractive and reliable investment destination amongst foreign investors.



The total invested capital in the first six months of 2021 is estimated at 58 billion USD, (of which 15.2 is foreign) up 7.2% (YoY), much higher than the increase of 3% in 2020, reflecting the effectiveness of governmental initiatives to promote the disbursement of public investment capital and tremendous support policies for the business community.

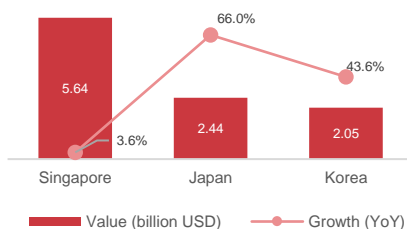


In June 2021, foreign investment projects were estimated to disburse 9.24 billion USD, a YoY increase of 6.8%. In the context of a sharp decline in global investment inflows in most countries, the FDI inflows in Vietnam shows that Vietnam is still an attractive investment destination for foreign investors.

In the first half of the year, a total of 80 countries and territories have invested in Vietnam. Notably, investment of some major partners has increased considerably over the same period. Singapore led with a

total investment of 5.64 billion USD, accounting for nearly 36.9% of the total invested capital in Vietnam, up 3.6% (YoY). Japan ranked second with 2.44 billion USD, accounting for nearly 16% of total invested capital, up 66.8% (YoY). Korea ranked third with a total registered investment capital of 2.05 billion USD, accounting for 13.4% of total investment capital, up 43.6% (YoY).

**Vietnam's top FDI partners
(01/2021 - 06/2021)**



Source: Vietnam's General Statistics Office

In the coming months, attracting FDI may face some difficulties due to the resurgence of the pandemic in the countries of some major partners as well as in Vietnam. However, the Vietnamese government has taken many positive actions to cope with the situation such as establishing a specialized working group to anticipate the wave of foreign investment when the world repositions the supply chain and production after the pandemic, adopting new regulations with various important amendments on foreign investment, as well as creating a favorable business environment for enterprises. In addition, Vietnam's signing of the Regional Comprehensive Economic Partnership (RCEP) and other major FTAs such as the EU-Vietnam FTA (EVFTA), the UK-Vietnam Free Trade Agreement (UKVFTA), and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) are creating great opportunities for Vietnam to integrate and participate more deeply in global production networks and to select high-quality FDI projects to move up the ladder in the global value chain.

The fourth wave of COVID-19 disrupts economic activities

Vietnam was successful in limiting infections in the early stage of the pandemic. However, a recent outbreak that began in late April forced many industrial parks in both Northern and Southern regions to temporarily close some of their key manufacturing hubs. Border closures, quarantine measures as well as factory shutdowns are affecting the production activities in Vietnam significantly. The Purchasing Manufacturers Index (PMI) showed that the index has declined from 53.1 in May to 44.1 in June.



According to a recent report conducted by Base.vn and FPT Vietnam in May and June, over 45% of surveyed enterprises had to restrict their operations and nearly 9% had to suspend due to the effects of the pandemic. Trade, transportation, and tourism activities are also significantly affected due to the travel limitations.

Realizing the substantial impact of the fourth wave on the economy, the government has constantly promoted the dual-goal policy of containing the pandemic and fostering the social-economic development by maintaining production where possible. Vietnam's government remains keen on supporting enterprises affected by the pandemic by delayed taxes and land fee rentals as well as introduce new support initiatives for both employers and employees.

Recently, the government also established a national vaccine fund and promise to inoculate 70% of population by early 2022 to achieve herd immunity. Although Vietnam is still lagging behind its peers in terms of vaccinated rate, inoculations are now rising with vaccine shipments arriving almost every week.



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