KPMG

COVID-19's impact on Vietnam's economy and policy response options

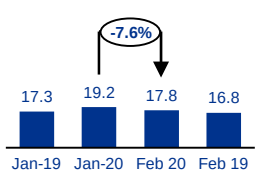
April 2020

Covid-19 has disrupted business transactions and negatively impacted macro econometrics

GDP = Household Consumption C ***+ Firm Investment*** I ***+ Government Spending*** G ***+ Net Export*** NX

Under the impact of Covid-19, due to **social distancing, border closures and global supply chain disruption, the impact on the economy is evident**. Each event below has influenced the aforementioned GDP components. Collectively, they are estimated to slow down the growth of Vietnam's GDP in 2020

PEOPLE CUT OFF ON THEIR SPENDING

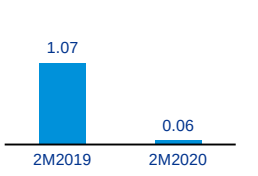


Source: GSO

- Between Jan and Feb 2020, people's consumption has weakened by ~ 4.7% (result from adjusting 7.6% with Lunar New Year's consumption rate(+3.1%) and inflation rate (-0.17%))
- **Affected industries**: catering services, mining (oil, gas), banking, transportation, tourism, accommodation, etc.

Decreasing* C I G NX

CREDIT GROWTH STALLS, HIGHER NPL, LOWER NIM

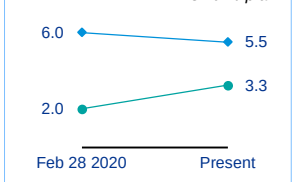


Source: SBV

- As companies scaled down on their operations including laying off and cutting salaries, they demanded less capital borrowing
- As people lost jobs or had their salaries cut, they tightened their expenditures and also borrowed less
- **Affected industries**: banking, other financial institutions, etc.

Decreasing C I G NX

LOWER INTEREST RATES INCREASES SHORT-TERM LIQUIDITY

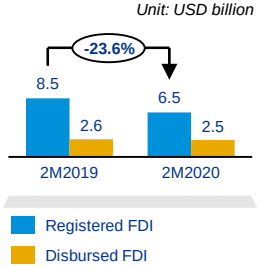


Source: SBV

- SBV lowered under 1-year loan rate by 50bps in an attempt to boost consumption. However, the effect might be modest and applied to individuals mostly. Corporates would require a debt restructure.
- As banks put money into a "rescuing reserve", overnight interbank rate increased.
- Effect on consumption stimulation however would be delayed and would not offset the decreasing trend from other events

Increasing C I G NX

FOREIGN DIRECT INVESTMENT (FDI) PLUMMETS

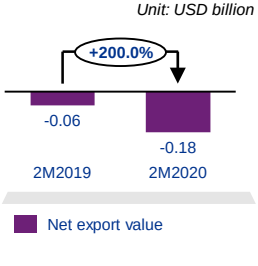


Source: MPI

- The drop in FDI compared to last year's period could be explained by the Covid-19 outbreak in China, Japan, and South Korea, which are top FDI investors in Vietnam for the last 3 years
- In Feb 2020, only USD2.5 billion FDI flowed to Vietnam,, a drop from USD4 billion in Jan
- Lower FDI may slowly weaken import/export activities

Decreasing C I G NX

NET EXPORT TURNS DEFICIT

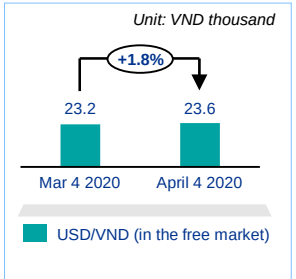


Source: GSO

- Three major exporting markets including USA, EU and China are paralyzed due to Covid-19. This hugely impacts electronics, textiles, and other exporting products of Vietnam.
- Samsung, who manufactures 50% of its phones in Vietnam and accounts for 25% of Vietnam's annual export value can drop its exporting value by 11.3%

Decreasing C I G NX

USD/VND EXCHANGE RATE FLUCTUATES UPWARDS



Source: SBV

- Foreign investors withdraw their money from risky assets and put them into reserve currencies like USD, JPY and Euro. USD is preferred, as Japan and EU are suffering more severely from Covid-19 while USA has a stronger economy. Accumulated demand for USA increases, hence the exchange rate. This may devalue VN's NX further as NX is currently negative

Decreasing C I G NX

Note: * means the event has a **direct/major** contribution to the negative change of the respective sector (not blurred) of the GDP; GSO = General Statistics Office of Vietnam, SBV = State Bank of Vietnam, MPI = Ministry of Planning and Investment; NPL = Non Performing Loan Ratio; NIM = Net Interest Margin; 1 USD = 23,300 VND (fixed)

Government may employ fiscal policies to stimulate GDP growth when monetary policies prove to reach their limits

5.0% GDP Growth

Covid-19

Projected by economists

6.8% GDP Growth

Targeted by the Congress

The current view is that Vietnam will likely take more actions later to make up for the current GDP growth slow-down and to continue pursuing the Congress's GDP growth target.

Legend:

- X Monetary policy
- X Fiscal policy

Desired Outcomes	Possible Interventions	Likely Effectiveness	Observations
Consumption (C)	1 Decrease short-term interest rate (deployed)	Low – High	• Benefits individuals more, marginally for corporates • Increases market short-term liquidity
Consumption (C)	2 Restructure debts (deployed)	Low – High	• Benefits both individuals and corporates • Helps reduce unemployment rate and bankruptcy • Reduces disruptions/price fluctuation to supply chains as less companies are out of business • Reduces NIM and NPL of commercial banks
Investment (I)	3 Print money for quantitative easing/bail-outs (not yet deployed)	Low – High	• Highly unlikely to happen as: ✓ Current inflation rate is already high ✓ Interest rate has just been reduced ✓ Money supply (M2 channel) is in surplus
Gov. Spending (G)	1 Reschedule/cut taxes and increase unemployment / social security benefits for those who are affected (deployed)	Low – High	• Increases market short-term liquidity • Increases inflation, yet offset by the deflation created by low aggregate demand from individuals, and corporates • However, this measure would significantly reduce State Budget, which leads to more deficits
Gov. Spending (G)	2 Issue more debts via bonds and treasury bills to fuel spending (not yet deployed)	Low – High	• The Government already has a USD16.3 billion loan due in 2020. If more debts are to be authorized, it creates a lot more pressure in the coming terms • Debt is expensive now since investors require higher interest rates for accepting higher risks. Capitals more likely flow to safer assets
Gov. Spending (G)	3 Increase public capitals disbursement (not yet deployed)	Low – High	• Highly likely to happen and beneficial to the infrastructure sector • The quickest method to gain capital and boost economy growth while creating employment • Infrastructure projects are likely to be prioritized as disbursement decisions can be implemented immediately
Gov. Spending (G)	4 Divest capital at SOEs to fund spending (not yet deployed)	Low – High	• Divestment can bring a large lump sump of money to fund more government spending. However, divestment takes at least 1 regulatory year to process. Evaluating values of SOEs' land use right would also be a major delay factor.

Source: KPMG Analysis

Note: NPL = Non Performing Loan Ratio, NIM = Net Interest Margin, M2 channel = measure of the money supply that includes cash, checking deposits, and easily convertible near money, SOE = State-Owned Enterprise