



# Vietnam's Economic Outlook: Growth Amidst Turbulence



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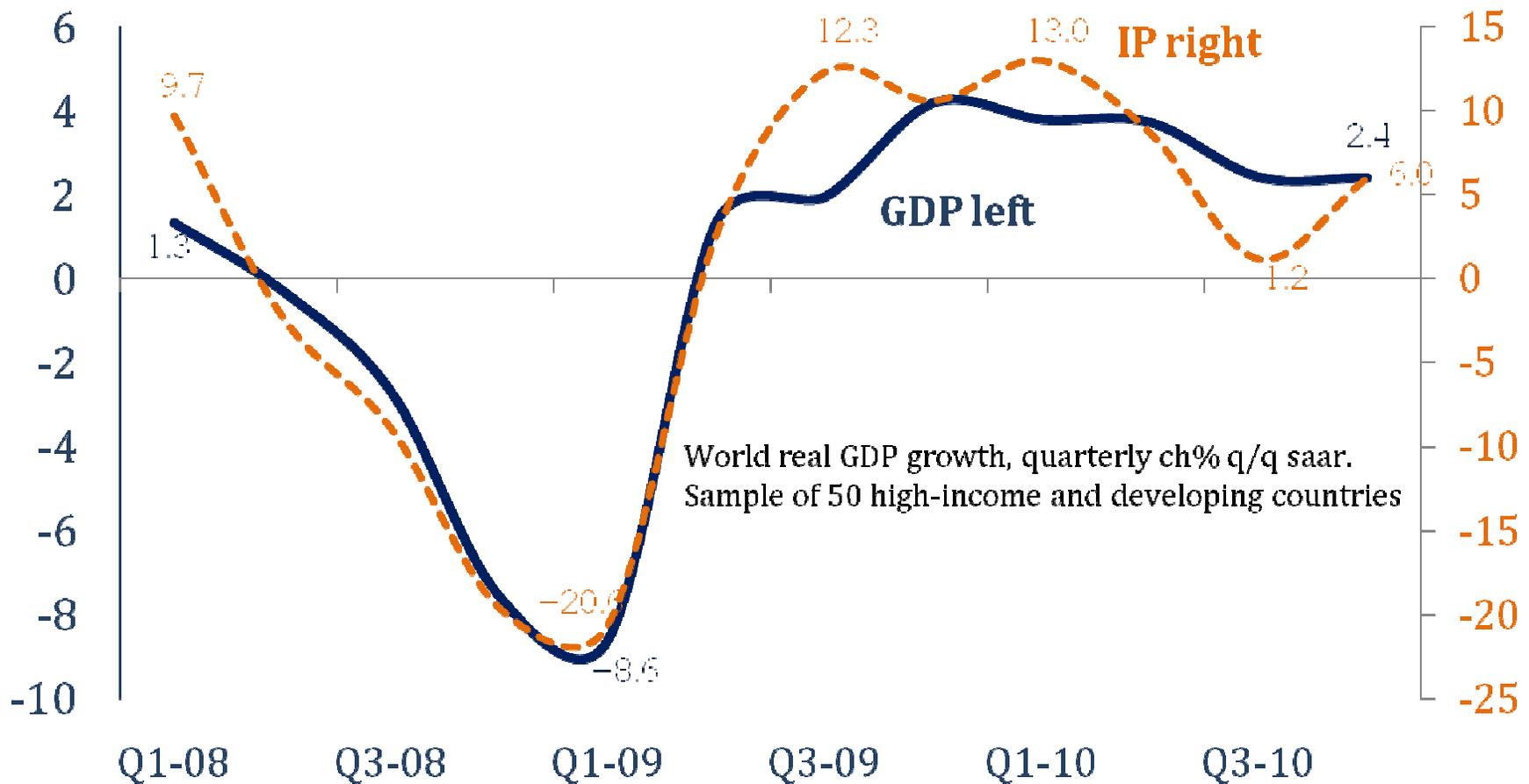


# Global and Regional Context



# GDP growth slowing to more sustainable rates. Industrial production volatility due to inventory cycle

Percent annualized growth, industrial production and GDP

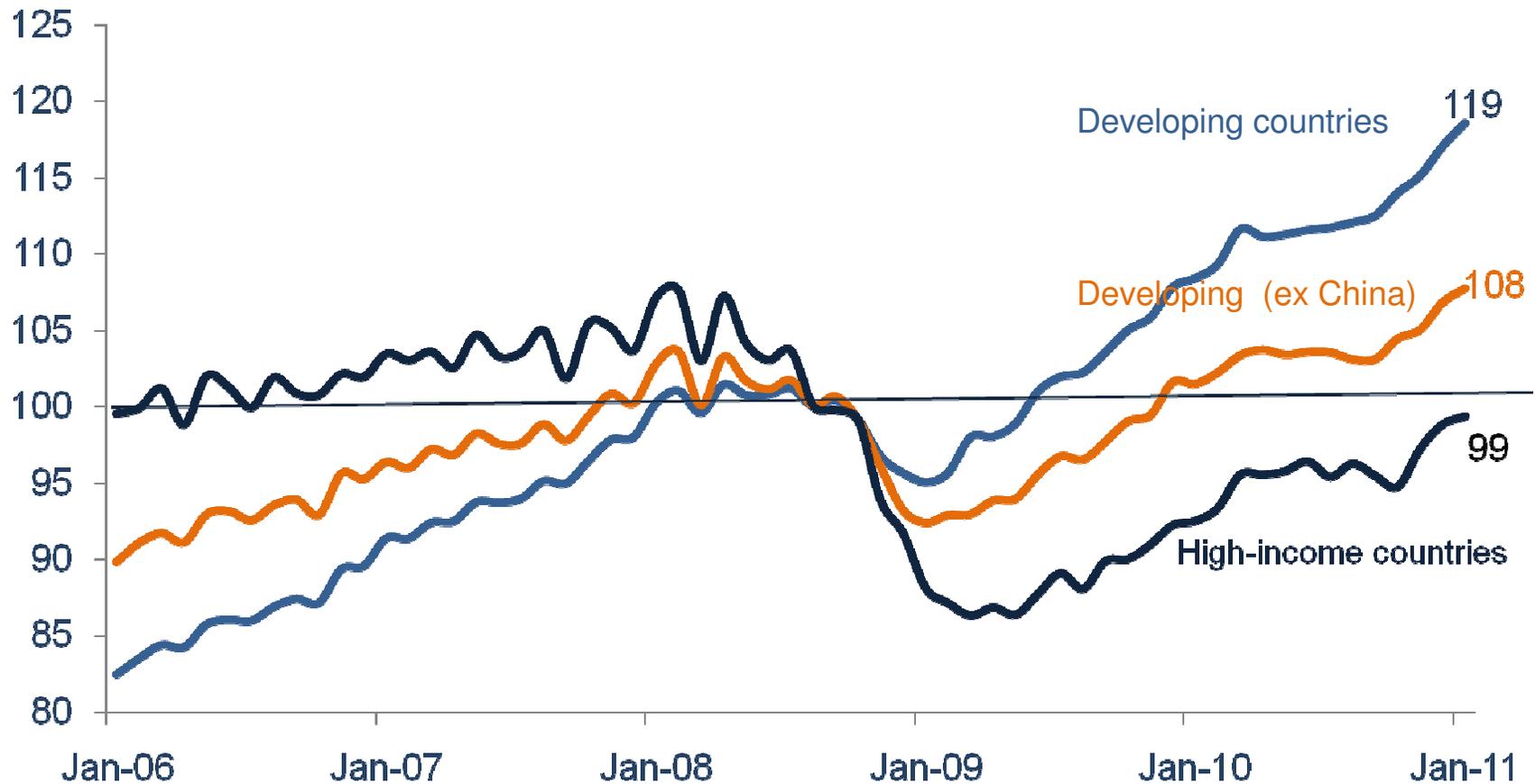


Source: Thomson/Reuters Datastream. DEC Prospects Group calculations.



# Industrial production has or will soon surpass pre-crisis levels

Industrial production, index Aug 2008=100



Source: World Bank.



# Developing country imports have been driving the rebound in trade.

Contribution to global growth of import volumes, 3m/3m saar



Source: World Bank.



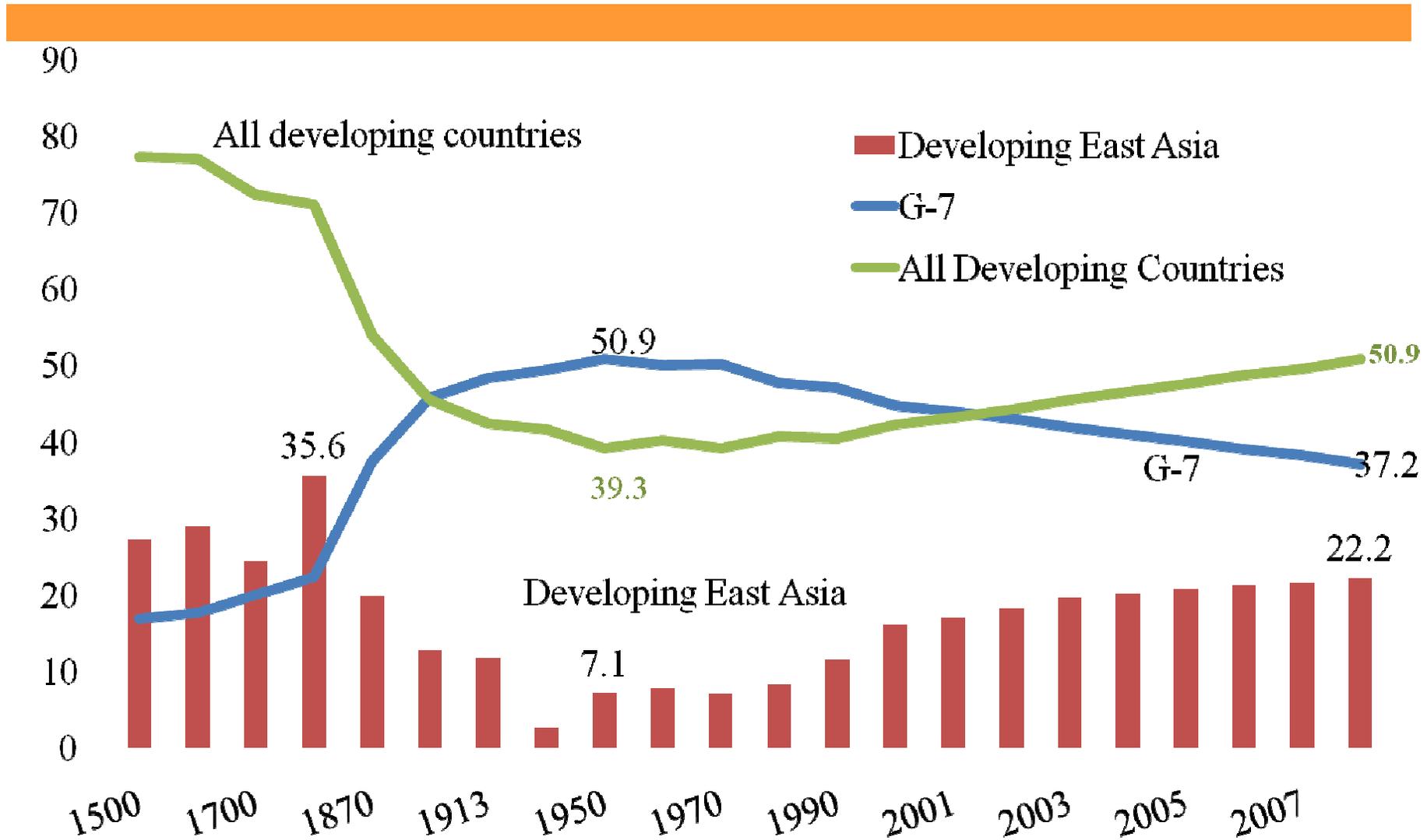
## East Asia remains the fastest growing region in the world (in percent)

	2008	2009	2010e
<b>Developing East Asia</b>	8.5	7.4	9.6
Excluding China	4.7	1.2	6.9
<b>Europe and Central Asia</b>	3.9	-6.6	4.7
<b>Latin America and Caribbean</b>	4.0	-2.2	5.7
<b>Middle East and North Africa</b>	4.2	3.1	3.3
<b>South Asia</b>	4.8	7.0	8.7
<b>Sub-Saharan Africa</b>	5.2	1.7	4.7
<b>High Income Countries</b>	0.2	-3.4	2.8



# With rising share of Global GDP

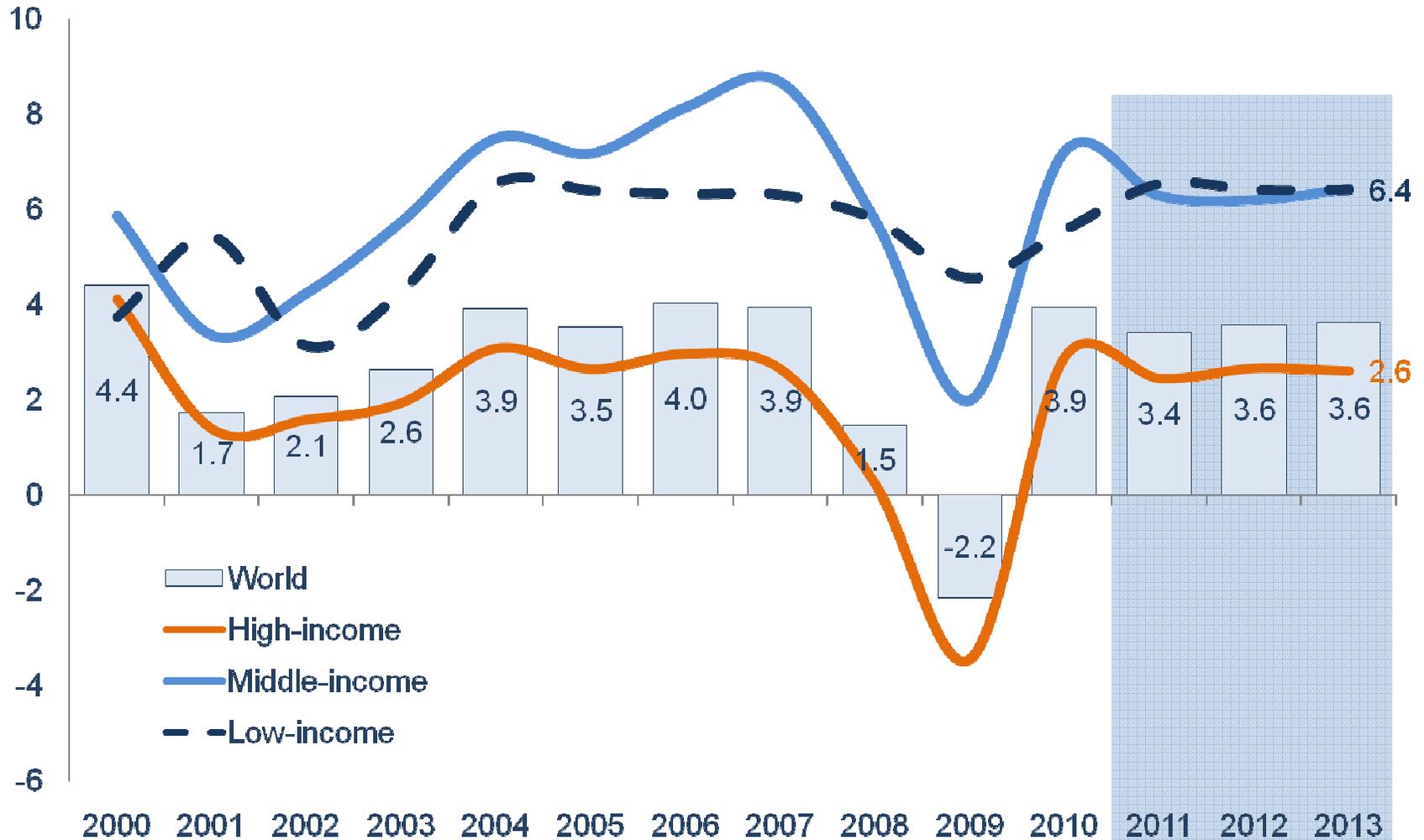
(in percent of global GDP, PPP)





# Global growth to slow somewhat in 2011

Real GDP growth rates in percent



Source: World Bank, DEC Prospects Group



# Risks to the Global Recovery

- Forces of recovery have persevered despite several weaknesses in the global economy.
- Main risk to global economy comes from:
  - Political turmoil in the Middle-East and oil prices, which could exacerbate inflation pressures, food prices and provoke a serious recession
  - Rapid rise in commodity prices
  - Ongoing headwinds in Europe
  - Tightening financial conditions may expose further weaknesses that current low interest rates have kept hidden
- East Asia is, however, unlikely to add to the global risk matrix.



# Vietnam's Recent Macroeconomic Developments



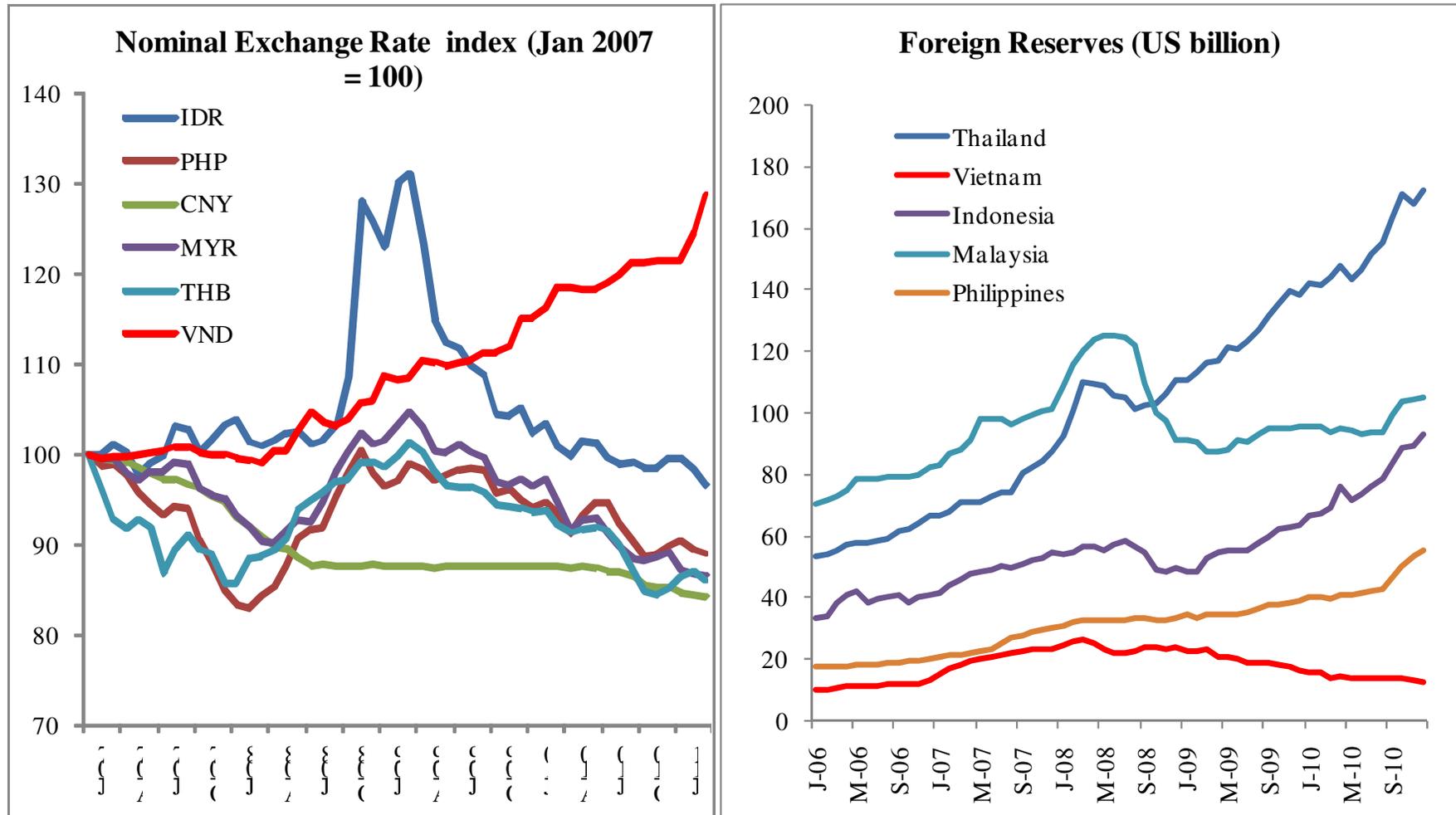
## **Vietnam's current macroeconomic problems are well-known....**

Several episodes of macroeconomic instability over the last three years. The last such episode started H2:2010.

- Inflation at three year high
- Dong under intense pressure for sometime
- Foreign exchange reserves had fallen below less than 1.5m of imports
- Default by Vinashin and potential build-up of contingent liabilities in the SOE sector
- Health of the banking sector
- Downgrading of sovereign rating



# Vietnam's macro picture has increasingly diverged from the rest of East Asia





## The Government's Policy Response

- There is now a growing “consensus” to undertake strong measures to restore macroeconomic stability
- Restoring stability will have to come at the expense of slower growth
- Resolution 11 commits the Government to a wide range of monetary, fiscal and structural policy reforms
- Some of the measures in the Resolution have already been implemented, especially by SBV (see Directive 01/CT-NHNH)
- Similar Directives and Circulars are under preparation in all the relevant Ministries

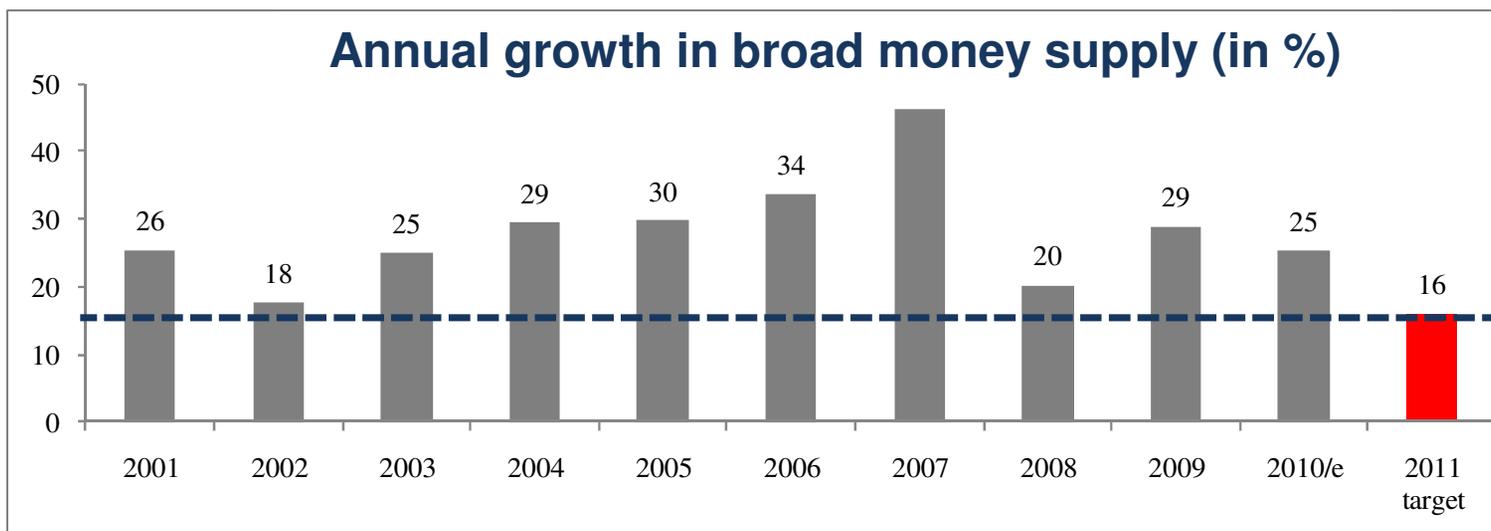
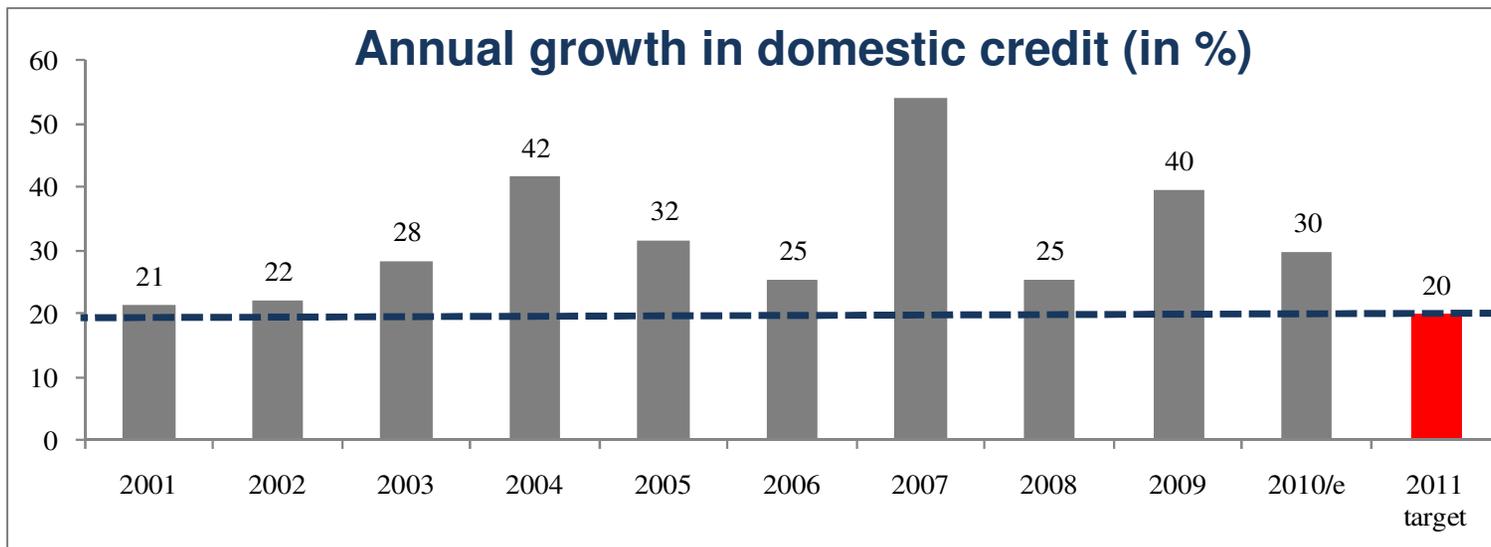


# Monetary Policy

- In the last four months, SBV has increased the refinancing rate from 8 percent to 13 percent and revised upward the overnight market operation (repo) rate six times – from 7 percent to 13 percent.
  - The target for credit growth in 2011 has been reduced to 20 percent from 39 and 33 percent in 2009 and 2010 respectively.
  - The target for broad money supply growth has been kept at 15-16 percent during 2011.
- ➔ These are unusually strong commitments by GoV, given its own past record on monetary policy



# Monetary Policy (contd...)

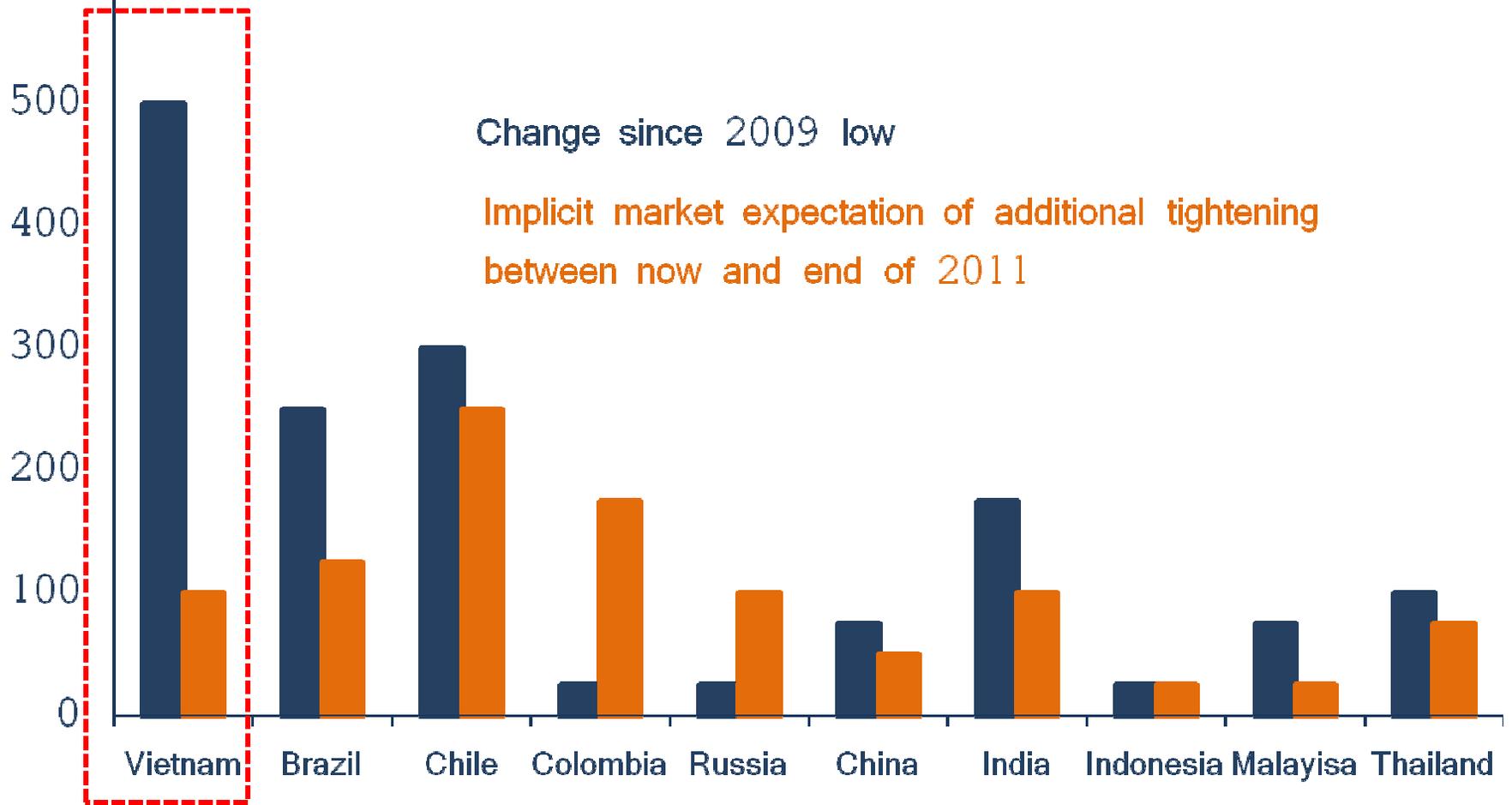




# Vietnam's monetary tightening from a global perspective

change in official interest rates

(basis points)



Sources: Bloomberg and DEC Prospects Group calculations



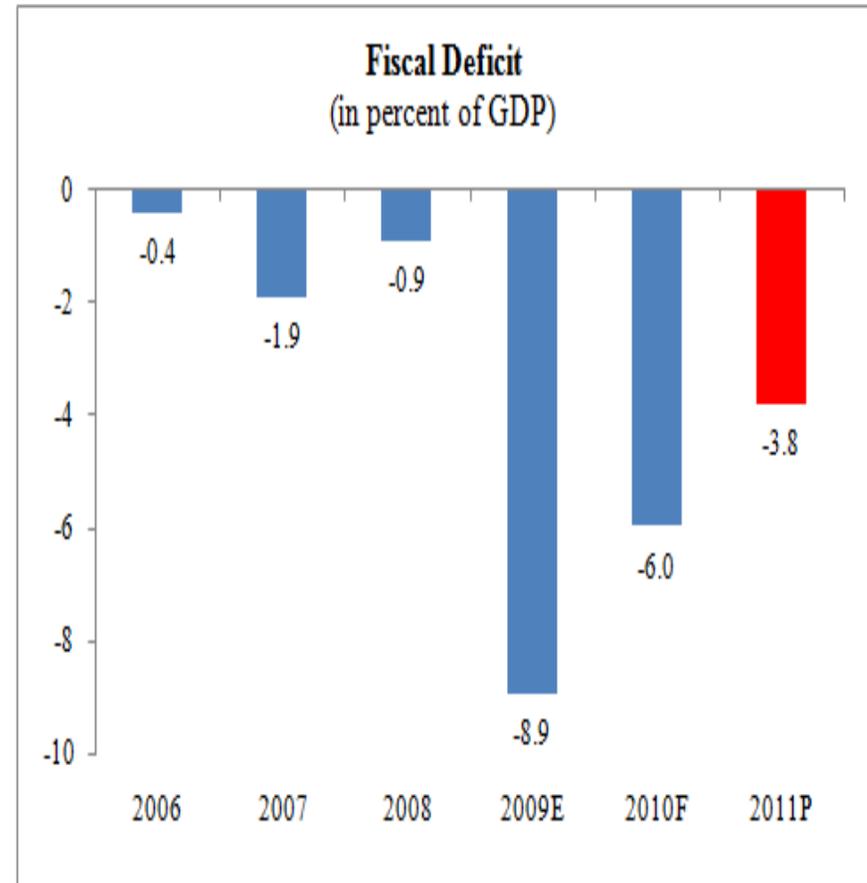
## Exchange Rate Policy

- The dong was devalued by 9.3 percent against the US dollar and the trading band was narrowed from +/-3% to +/-1%. This is the single largest correction to the exchange rate following the onset of macroeconomic instability in 2007.
- SBV will soon be issuing a Decree on Management of Gold Trading, which will centralize gold exports, eliminate trading in gold bars, and prevent cross-border trafficking of gold. The Resolution instructs competent authorities to ensure that foreign exchange and gold traders comply with the law.



# Fiscal Policy

- Non-salary recurrent expenditure will be reduced by 10 percent, approval of new projects in the public sector has been temporarily stopped, including in SOEs, and fiscal deficit is projected to reduce below 5 percent of GDP in 2011 (GoV's definition). But will this be enough?





## Banking Sector

- Banks' exposure to non-productive activities (which include real estate and security market) will be limited to 22 percent of total credit by June 30, 2011 and to 16 percent by December 31, 2011.
- Loan classification and provisioning practice in the banking system will be upgraded to bring them closer to international norms.
- Vietnam to participate in the Financial Sector Assessment Program (FSAP).

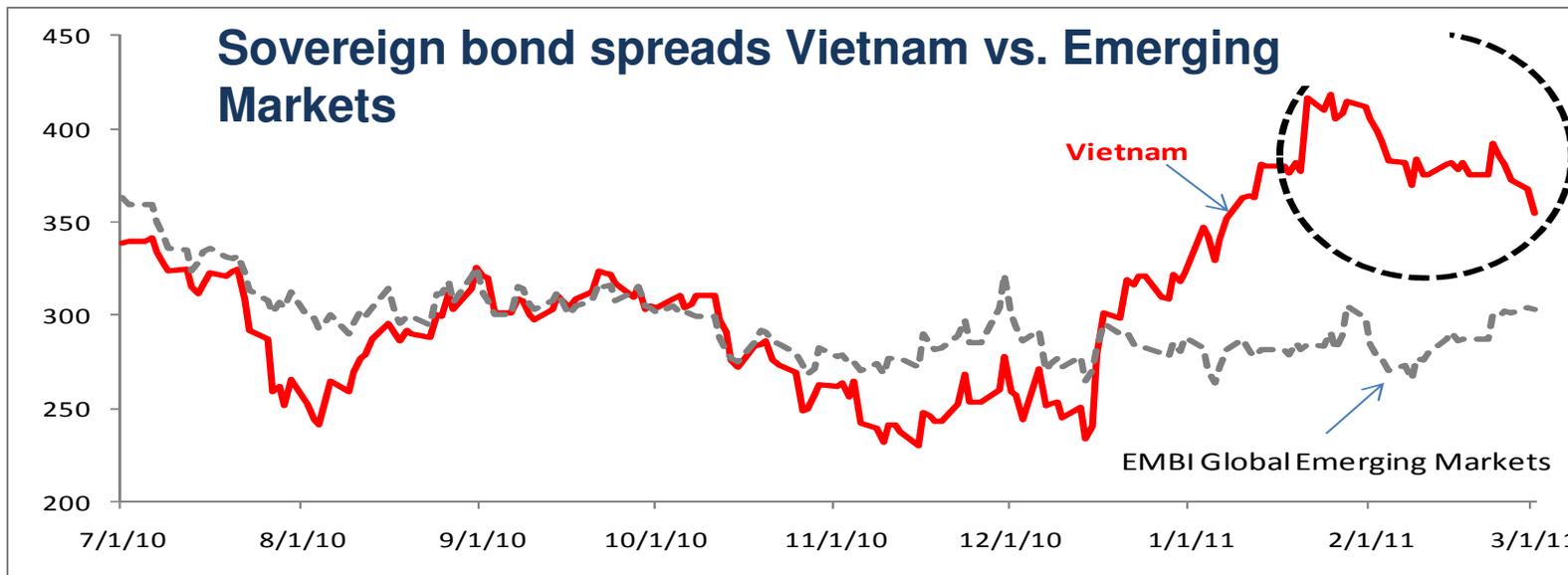
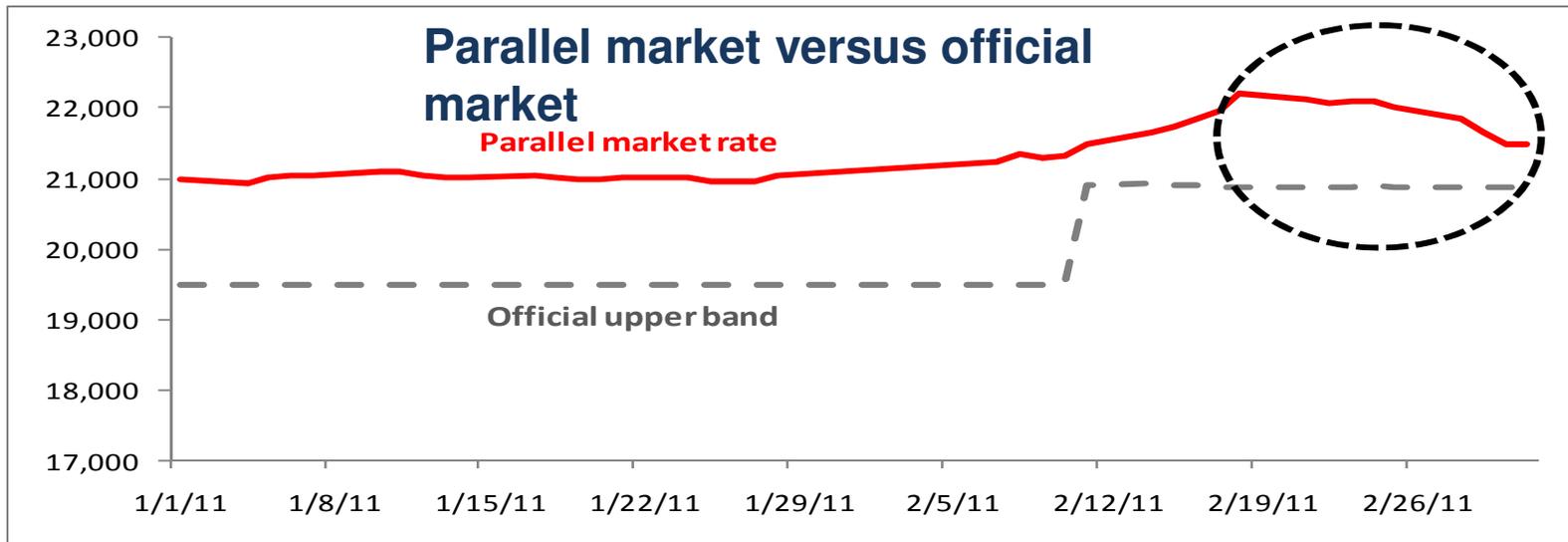


# State-Owned Enterprises

- To carry out independent audits of key Economic Groups using international norms.
- MPI to review planned loans and investment projects of SOEs to identify those that can be dropped or scaled down. A Report has already been submitted to the Government .
- The Government will accelerate equitization process and strengthen the governance of SOEs.



# Initial response has been encouraging





## But implementation will be key

- Resolution 11 and associated policy changes constitute an important step in the right direction.
- In the short-run, the key to success will be effective implementation of the announced policies and to be prepared to do more if needed.
- Much needs to be done over the medium term to address some of the structural weaknesses, including outlining a path for medium-term fiscal consolidation, prudential regulation of the banking and more clarity on future course of reforms for the state enterprise sector.



## Near-term Outlook (As Projected in Feb 2011)

	2009/r	2010/e	2011/p	2012/p
<b>Output, Employment and Prices</b>				
GDP (% change previous year)	5.3	6.8	6.3	6.7
Industrial production index (% change, previous year)	7.6	14.0	13.0	13.5
Consumer price index (% change, period-end)	6.5	11.8	9.5	6.5
Consumer price index (% change, period-average)	6.7	9.2	13.5	6.7
<b>Fiscal Balance</b>				
General fiscal balance (% GDP, including off-budget items)	-9.0	-6.4	-3.9	-3.8
<b>Foreign Trade, BOP and External Debt</b>				
Trade balance (BOP definition, \$US billion)	-8.3	-7.1	-7.4	-7.8
Exports of goods, (\$US billion, fob)	57.1	72.2	84.8	99.5
Key exports, (value, % change) - crude oil	-40.2	-23.0	-5.0	-5.0
Imports of goods, (\$US billion, fob)	65.4	79.3	92.3	107.3
Current account balance (\$US billion )	-6.1	-4.0	-4.4	-4.5
Current account balance (percent GDP)	-6.6	-3.8	-3.8	-3.6
Foreign direct investment (net inflows, \$US billion)	6.9	7.1	7.2	7.3
External debt (\$US billion)	37.3	43.2	47.7	52.2
Debt service ratio (% exports of g&s)	4.5	3.2	3.2	3.5
<b>Financial Markets</b>				
Credit to the economy (% change, period-end)	39.6	32.4	20.0	18.0

Source: General Statistics Office, State Bank of Vietnam, IMF and World Bank. e = estimate, p = projections.



## **There are many downside risks to the near-term outlook**

- Frequent and sharp increase in energy/fuel prices, combined with proposed increase in minimum wages are eroding the anti-inflationary impact of Resolution 11.
- Excessive use of administrative measures are weakening the price signals in the economy and thereby resulting in less optimal allocation of capital.
- The government will have to rebuild its credibility by demonstrating a consistent track-record on maintaining macroeconomic stability.



# Longer-term outlook

- There are many good reasons to be bullish on Vietnam's longer-term outlook.
- Vietnam's track record on growth and poverty reduction remains one of the most impressive in the developing world.
- The country's real strength is its people – pragmatic, resilient, industrious, mobile and enterprising (PRIME)!
- Finding lasting solution to its macroeconomic problems remain Vietnam's number one priority .... success here will influence its long-term outlook!

Thanks You !