Taking Stock
An Update on Vietnam’s Recent Economic Developments

The World Bank
30 November, 2011

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Outline

- Global and Regional Developments
- Vietnam’s Recent Economic Developments
- Ongoing Challenges
- Medium-Term Prospects
Global and Regional Developments

Vietnam is vulnerable to global economic slowdown:

- Prioritize efficiency of public investment, restructuring of SOEs, and other structural reforms even if this means some moderation in short-term growth.

Growth in developing East Asia has moderated but remains strong, offering trade and investment opportunities for Vietnam:

- Invest in regional partnerships and regional infrastructure to help offset effects from slowing demand in advanced economies.
Recent Economic Developments (1)

Implementation of Resolution 11 is starting to show results with month-on-month inflation abating.
Recent Economic Developments (2)

- Tight monetary policy has helped to contain credit and money supply growth.

- But more transparency is needed in communicating overall strategy and direction to avoid market uncertainty.

*Source: SBV*
Recent Economic Developments (3)

Economic growth has moderated but expected to remain strong in 2011 at 5.8 percent.

**Gross domestic product**
*(Change in percent)*

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>9M-10</th>
<th>9M-11</th>
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</thead>
<tbody>
<tr>
<td>Total GDP</td>
<td>5.3</td>
<td>6.8</td>
<td>6.5</td>
<td>5.8</td>
</tr>
<tr>
<td>Agriculture, forestry and fishery</td>
<td>1.8</td>
<td>2.8</td>
<td>3.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Industry and construction</td>
<td>5.5</td>
<td>7.7</td>
<td>7.3</td>
<td>6.6</td>
</tr>
<tr>
<td>Industry</td>
<td>4.0</td>
<td>7.0</td>
<td>6.6</td>
<td>7.0</td>
</tr>
<tr>
<td>Construction</td>
<td>11.4</td>
<td>10.1</td>
<td>10.3</td>
<td>4.9</td>
</tr>
<tr>
<td>Services</td>
<td>6.6</td>
<td>7.5</td>
<td>7.3</td>
<td>6.2</td>
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</table>

*Source: GSO*

Industry and services sectors grew robustly, contributing the most to overall growth. The primary sector grew by 2.4 percent in the first nine months of 2011, despite periods of unfavorable weather. Growth in construction sector has slowed down.
Recent Economic Developments (4)

- High commodity and food prices have boosted Vietnam’s exports and imports.
- Current account deficit has narrowed to 3.8 percent of GDP thanks to remittance flows.

High commodity prices are helping exports (annual growth rate)

External balances continue to improve (percent of GDP)
Recent Economic Developments (5)

- Total committed FDI fell by 22 percent in the first ten months of 2011 compared to the same period last year.
- Foreign investors have shifted from real estate to manufacturing – trend or a blip?
- East Asian countries were the biggest foreign investors in Vietnam during the first 10 months of 2011.

Change in FDI commitment
(share of total)
Ongoing Challenges (1)

- Fiscal consolidation from improved revenue take, but little effort on the expenditure side, which remains high.

State budget revenues by taxes (in trillion of Vietnam dong)

- Greater focus is needed on efficiency of public investment.
Vietnam’s debt position has been historically strong but has deteriorated since the onset of the global crisis in late 2008.

Total external debt outstanding is estimated to have risen to 42 percent of GDP at the end of 2010, almost 10 percentage points higher compared to end of 2007.

Although external debt and debt service indicators remain below the applicable debt thresholds for debt sustainability, the situation can deteriorate rapidly as has happened for many developed and developing countries.
There are potential systemic risks in the financial sector due to:

- unusually high credit growth of the past years,
- high lending rates, and
- relatively weak risk management capacity.

But credible plans underway to restructure and consolidate the banking sector.

The Government is also making efforts to strengthen the supervisory and regulatory framework in the financial sector.
Medium-Term Prospects

- Important stability gains through implementation of Resolution 11, but gains are still fragile (capital flight is still large).
- Fiscal consolidation and structural elements of Resolution 11, including restructuring of the SOEs and financial sectors should help Vietnam return to a more sustainable macroeconomic environment while laying the foundations for greater efficiency to drive medium term growth.